OUR PLAN IN BLACK AND WHITE

ANNUAL REPORT 2003 157th EDITION

LAURENTIAN BANK OF CANADA

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Cautionary note on forward-looking statements

From time to time, the Bank makes written and oral forward-looking statements, included in this Annual Report, in other filings with Canadian regulators, in reports to shareholders and in other communications. These forward looking-statements include, among others, statements regarding the business and objectives for the coming years, and the medium- and long-term strategies to achieve these objectives, as well as statements with respect to the Bank's beliefs, plans, expectations, anticipations, estimates and intentions. This Annual Report contains such forward-looking statements. These statements are subject to a number of risks and uncertainties, several of which are independent of the Bank's will, and can have an impact on the Bank's operations, performance and results. These factors may affect actual results which could differ from results contemplated by the forward-looking statements. Such differences may be caused by factors which include, among others, global capital market activity, changes in government monetary and economic policies, changes in interest rates, inflation levels and general economic conditions, legislative and regulatory developments, competition and technological change, along with the Bank's success at increasing revenues and managing costs related to executing its business plan. The Bank cautions that the foregoing list of factors is not exhaustive. When relying on forward-looking statements to make decisions, investors and others should carefully consider the foregoing factors and other uncertainties and should not place undue reliance on such forward-looking statements. The Bank does not undertake to update any forward-looking statements, oral or written, made by itself or on its behalf.

“OUR TRANSITION TO GROWTH HAS BEGUN.”

RAYMOND MCMANUS, PRESIDENT AND CHIEF EXECUTIVE OFFICER

ON AUGUST 15, 2003, LAURENTIAN BANK OF CANADA ANNOUNCED ITS INTENTION TO CONCENTRATE ITS OPERATIONS IN MARKETS IN WHICH IT HOLDS A STRATEGIC POSITION, NAMELY QUEBEC FOR DIRECT RETAIL FINANCIAL SERVICES, AND ALL OF CANADA FOR OTHER SERVICES. THROUGH THIS REPOSITIONING, THE BANK WANTS TO ENSURE ITS PROFITABILITY AND GROWTH OVER THE MEDIUM AND LONG TERM. THE THREE-YEAR ACTION PLAN THAT RESULTS FROM THIS DECISION CONSISTS OF CAPITALIZING ON THE BANK'S STRONGEST ASSETS IN ORDER TO ENHANCE ITS EFFICIENCY, CUSTOMER RELATIONS AND PERFORMANCE. THIS ACTION PLAN IS THE FOCAL POINT OF THIS ANNUAL REPORT. HEREIN WE WILL PRESENT A SUMMARY OF THE DECISIONS WE HAVE MADE AND THE MOTIVATIONS FOR THESE CHOICES, TOGETHER WITH AN OBJECTIVE FORECAST OF OUR ANTICIPATED RESULTS.

Message from the President and Chief Executive Officer

Although the Canadian economy recovered somewhat in 2003, the Bank's profitability in the past fiscal year was much less than expected. Several factors explain our results, some, linked to the economic climate or the intensity of the competition, are beyond our control, while others reflect our decision to find, once and for all, solutions to problems that the Bank has grappled with for several years.

A CRUCIAL YEAR

The most important factors that hampered our profitability in 2003 are undoubtedly the reduction in other income from securitization activities, lower treasury and financial market revenues, as well as a decline in lending fees and the reduction in net interest margins due to fierce competition in rates offered on mortgage markets and in point-of-sale financing. The financial difficulties of Air Canada also significantly affected our results; we consequently absorbed, in the year, an additional provision for losses of $10 million.

Factors ensuing from the choices we have made have caused our results to be less than satisfactory in the short term, but we believe our decisions as a whole will spur the Bank's growth over the medium and long term. For instance, restructuring costs generated by the implementation in the third and fourth quarters of the expense reduction program will undermine our immediate results, but will help us lower our costs beginning in 2004. Furthermore, our decision to withdraw from certain markets outside Quebec, owing to the absence of sustained growth and the critical mass required to ensure profitability, will enable us to truly concentrate our direct retail financial services in Quebec.

After having abandoned the project that would transform the Bank into a holding company in 2002, we set about assessing the Bank's strengths along with the areas requiring improvement. This exercise prompted us to take the necessary steps to ensure the Bank's growth.

Vital repositioning

These decisions are the cornerstone of a three-year business plan, announced earlier, intended to reposition the Bank by capitalizing on its strengths and the features that truly differentiate it from the competition. The outline of this plan, which the management committee and I have presented on page 12 of this Annual Report, is ambitious yet realistic. Ambitious because it spans all of our sectors of activity, and realistic because it is the product of a concerted analysis.

The exhaustive analysis that we performed in 2003 clearly demonstrated that we would benefit considerably by targeting our efforts more precisely. Renowned, especially in Quebec, for its quality service, the Bank is also known for its dynamic commercial sector and its indirect financial services. Because of its relatively modest size, the Bank can quickly adapt to diverse situations. Outside of Quebec, however, awareness of the Bank mainly centres on its indirect services, and its commercial activities.

We have therefore outlined different strategies: one for our direct retail financial services, one for our indirect services and one for our commercial financial services. Implementing these strategies is indeed our goal for the new fiscal year.

Banking on our strengths

By concentrating our direct retail financial services in Quebec, we can boost our efficiency and consolidate our position as a leading bank in this market, which we have served for 157 years.

The sale of our branches in Ontario and Western Canada will enable the Bank to focus its energies and resources on the sectors of activity and markets in which it is well positioned. We can thus gain market share and enhance the efficiency of our operations, along with the quality of our customer service and our long-term development. This decision will reposition us as a regional bank that is aiming for growth in its core market.

Moreover, the gain on the sale of the 57 branches to The Toronto Dominion Bank (TD Bank) has brought us into 2004 with a stronger balance sheet and a lower risk profile, with the highest Tier I and total capital ratios in the Bank's history. Such strong capital ratios will enhance our flexibility with a view to future business expansion and strategic opportunities in our principal markets.

We will now channel our energies and resources into directly serving our Quebec customers through our branch network, automatic banking machines, telebanking center and electronic services. We will invest unprecedented resources in this sector, and we will put in place unique initiatives to better serve our clientele and in order to outperform the competition.

This quest to expand our branch network in Quebec has been a priority at the Bank for several years. Our purchase of 43 Quebec branches from another Canadian bank in 2000 reflects our goal of significantly increasing our presence both in the Greater Montreal area and in other regions in Quebec and thus improving our efficiency. Time has since confirmed the soundness of that decision.

In addition to extending our direct retail services to locations where demographic changes warrant, we plan to continue to implement the *Entrepreneurship* project, whose main characteristics will now be introduced in all regions of Quebec. Our customers will notice an improvement in service, while our branches will enjoy greater autonomy.

As for our Commercial Financial Services, experience has demonstrated their instrumental role in bolstering the Bank's reputation. By grouping our commercial services, including those that we offer to microentreprises, we intend to become even more efficient, accessible and profitable. Companies that do business with Laurentian Bank will never doubt that they have come to the right place, whatever their size, or their needs. They will find that our staff is always available, easily accessible and eager to help them quickly and efficiently.

"The decision to concentrate and grow our direct retail financial services in Quebec in no way detracts from our efforts to remain in the rest of Canada."

Maintaining a strong presence in the rest of Canada

The decision to concentrate and grow our direct retail financial services in Quebec in no way detracts from our efforts to remain in the rest of Canada. On the contrary, we plan to substantially develop our indirect financial services, notably by offering mortgage credit through brokers and a specialized sales team, and growing our point of sale financing activities, a niche in which the Bank is already a leader across Canada. In addition, we will highlight brokered deposits and agency services, particularly through B2B Trust, which has maintained good profitability since its creation three years ago, despite the market turmoil. B2B Trust intends to improve its profitability, namely by diversifying its revenue sources and developing new credit products.

The Bank has a very clear plan to bring about its strategic repositioning, and I am confident that this approach will deliver concrete results over the coming years. We realize that all will not be done in a day.

A new beginning

The Bank has a strong belief in the importance of human resources and, accordingly, will endeavour through the arbitration process to obtain a labour agreement which will offer the necessary flexibility to operate in a competitive environment while providing our unionized employees with fair working conditions. The arbitration process is binding and a decision is expected by mid year 2004. We will intensify our efforts towards building a more constructive relationship with our union. Given the scope of the challenge set forth in our business plan, it is more crucial than ever that the Bank put in place labour conditions that propel us forward. Far from being a disadvantage, our size gives us a definite edge; we can thus optimally emphasize service quality and better grasp the needs of the communities we serve. I am convinced that we can provide exceptional service, which will clearly differentiate us from our competition.

2004 will be a crucial year: it will be Year 1 of our strategic repositioning plan. I believe in the success of Laurentian Bank: a Bank more focused and disciplined. The success of this plan rests on the support of all our partners, namely our clients, for their continued loyalty, our shareholders for their patience, and our employees for their understanding and support. I have the utmost confidence in Laurentian Bank and I am convinced that collectively we can spur the Bank's success for the benefit of our customers, employees and shareholders.

"I have the utmost confidence in Laurentian Bank and I am convinced that collectively we can spur the Bank's success for the benefit of our customers, shareholders and employees."

Raymond McManus
President and Chief Executive Officer

Message from the Chairman of the Board

"In my first year as a board member, and then as chairman, I could not help but notice the extent that our management committee, with the support of our directors, has made the right decisions to build the Bank's future upon solid foundations."

SOLID FOUNDATIONS, DISCIPLINE AND DETERMINATION: THE KEYS TO OUR SUCCESSFUL FUTURE

In my first year as a board member, and then as chairman, I could not help but notice the extent that our management committee, with the support of our directors, has made the right decisions to build the Bank's future upon solid foundations. After having produced an objective profile of the strengths and weaknesses of the Bank, Mr. Raymond McManus and his team effectively gave precedence to rules of conduct that would emphasize the strategic repositioning of the Bank and the optimal harnessing of our strengths over immediately gratifying yet ephemeral results. This courageous approach reflects a clear intention to manage our institution in a rigourous fashion and to nurture the growth of shareholder value in a sustainable manner.

Exemplary discipline

The first bank to separate the positions of chairman of the board and president and chief executive officer 20 years ago, the Bank has repeatedly demonstrated the vital importance that it places on rules of governance and the protection of its shareholders' interests.

Through its composition and its guiding principles, the Bank's Board of Directors is keeping this tradition alive. We have been fortunate enough to appoint experienced directors with varied areas of expertise, who hail from diverse sectors of business. They not only actively participate in strategic decision making, but also take their responsibilities as shareholders' representatives and defenders of shareholders' interests very seriously. In addition, our directors actively contribute to various board committees on an ongoing basis, and ensure rigorous compliance with the principles that underlie responsible management.

Such discipline is more important than ever. To this effect, the board thoroughly reviewed all of its corporate governance processes in 2003, and reiterated its commitment to ensuring that the Bank set an example in this respect.

Three members of the board of directors departed during the year: Mr. Réjean Gagné, who had sat on the board since 1980, Mr. Jean-Guy Desjardins, who joined us in 2002, and Ms. Suzanne Masson, who had agreed to act as an interim board member. We extend our heartfelt thanks to these individuals for their invaluable assistance.

The Board of Directors welcomed three new members during fiscal year 2003: Mr. Richard Bélanger, Ms. Ève-Lyne Biron and Mr. Gordon Ritchie. I would like to thank them all, along with our other directors, for the time and energy they have dedicated to fulfilling their role, which is so pivotal to the Bank's development.

A management team that deserves our trust

I can also state that the priorities of the management committee, as elaborated in its three-year plan, are perfectly compatible with those of the board of directors, and that we fundamentally share the same objectives. While being very conscious of the principles of corporate governance, there has resulted a very positive synergy between the Board and management which will surely serve the interests of our shareholders.

Since his appointment as president and chief executive officer slightly more than one year ago, Mr. Raymond McManus has exhibited exceptional leadership and determination, and has instilled in his team his drive to make Laurentian Bank a very strong bank in its principal market and a respected player in the rest of Canada. He and his team deserve our trust and support as they carry out the strategic repositioning plan that they have initiated.

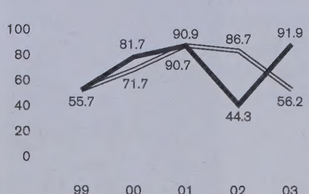
"Mr. McManus and his team deserve our trust and support as they carry out the strategic repositioning plan that they have initiated."

L. Denis Desautels, O.C.
Chairman of the Board

Financial highlights

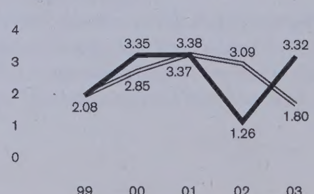
In millions of dollars, except per share amounts	2003	2002	2001
Per common share			
Net income			
Basic	**$ 3.33**	$ 1.27	$ 3.40
Diluted	**$ 3.32**	$ 1.26	$ 3.37
Dividends	**$ 1.16**	$ 1.16	$ 1.06
Book value	**$ 28.73**	$ 26.57	$ 27.08
Share price			
High	**$ 29.25**	$ 41.30	$ 33.25
Low	**$ 24.91**	$ 25.53	$ 24.00
Close	**$ 27.75**	$ 28.08	$ 27.41
Number of common shares (in thousands)			
Average	**23,416**	23,095	22,710
End of period	**23,436**	23,409	22,868
Price/earnings ratio	**8.3x**	22.1x	8.1x
Market to book value	**97%**	106%	101%
Dividend yield	**4.18%**	4.13%	3.87%
Earnings			
Total revenue	**$ 629.9**	$ 600.4	$ 630.8
Net income	**$ 91.9**	$ 44.3	$ 90.7
Net income available to common shareholders	**$ 77.9**	$ 29.3	$ 77.2
Other income			
As a % of total revenue	**45.5%**	42.4%	42.1%
As a % of average assets	**1.55%**	1.37%	1.55%
Return on average assets	**0.50%**	0.24%	0.53%
Efficiency ratio			
Non-interest expenses as a % of total revenue	**70.1%**	67.8%	70.6%
Return on common shareholders' equity	**12.4%**	4.8%	13.1%
Balance sheet assets and assets under administration			
Balance sheet assets	**$16,738**	$18,596	$17,696
Cash resources and securities	**$ 3,906**	$ 3,504	$ 2,506
Loans, bankers' acceptances and assets purchased under reverse repurchase agreements, net	**$12,151**	$14,324	$14,426
Personal deposits	**$10,509**	$12,008	$11,520
Assets under administration	**$15,488**	$14,893	$15,095
Cash resources and securities			
As a % of balance sheet assets	**23.3%**	18.8%	14.2%
Personal deposits			
As a % of total deposits	**79.1%**	80.2%	79.3%
As a % of loans, bankers' acceptances and assets purchased under reverse repurchase agreements, net	**86.5%**	83.8%	79.9%

Net income
In millions of dollars



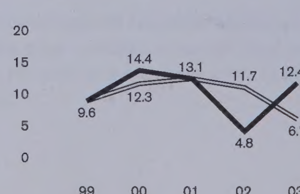
- As per financial statements
= Excluding special items

Diluted net income per common share
In dollars



- As per financial statements
= Excluding special items

Return on common shareholders' equity
As a percentage



- As per financial statements
= Excluding special items

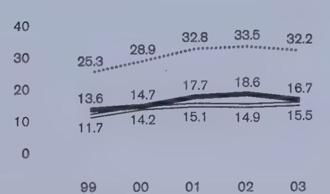
As at October 31	2003	2002	2001
Quality of assets			
Net impaired loans			
As a % of loans, bankers' acceptances and assets purchased under reverse repurchase agreements	**0.2%**	0.1%	0.2%
Allowance for loan losses	**$ 163**	$ 218	$ 134
As a % of gross impaired loans	**88%**	96%	84%
As a % of gross loans, bankers' acceptances and assets purchased under reverse repurchase agreements	**1.33%**	1.50%	0.93%
Geographic distribution of loans			
Quebec	**64%**	53%	54%
Other Canadian provinces	**36%**	47%	46%
Loan distribution			
Personal	**32%**	28%	25%
Residential mortgages	**46%**	49%	50%
Commercial mortgages	**6%**	7%	7%
Commercial and other	**16%**	16%	18%
CMHC insured mortgages			
As a % of residential mortgages	**57%**	61%	59%
Capitalization			
Shareholders' equity, non-controlling interest in a subsidiary and debentures	**$1,315**	$1,269	$1,222
BIS capital ratios			
Tier I	**10.2%**	8.8%	8.1%
Total capital	**15.2%**	13.5%	12.4%
Common equity to risk-weighted assets	**8.5%**	7.2%	7.0%
Other information			
Number of full-time equivalent employees	**3,159**	3,730	3,884
Number of branches	**155**	214	230
Number of automated banking machines	**284**	351	360

As at October 31	Quebec	Other	2003 Total	2002 Total
Point-of-sale Financing	3,271	4,884	**8,155**	7,580
Point-of-sale Terminals	1,331	384	**1,715**	2,131
Brokerage Offices	8	2	**10**	10
Business Service Centers	13	9	**22**	18
Independant Financial Advisors	3,126	10,057	**13,183**	12,130

Efficiency ratio
Non-interest expenses as a percentage of total revenue

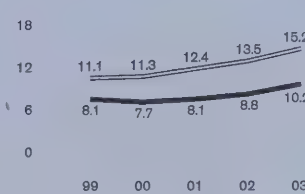
(1) 70.4% excluding special items
(2) 75.4% excluding special items

Balance sheet assets and assets under administration
In billions of dollars



Balance sheet assets
Assets under administration
Total

BIS Capital Ratio
As a percentage



Tier I
Total capital

PERFORMANCE AND FINANCIAL OBJECTIVES

ADJUSTING TO SUCCEED

Performance

We have reviewed our last year objectives against the performance of the Bank, excluding special items. To this effect, please refer to the "Management's discussion and analysis of results of operations and financial conditions" on page 33 of this Annual Report.

Objectives	Performance (excluding special items)	Comments
Diluted earnings per share of $2.80	$1.80	Earnings per share reached $1.80, short of our $2.80 objective, mainly due to the lack of total revenue growth in Retail Financial Services, Commercial Financial Services and B2B Trust.
Improvement of efficiency ratio in each line of business	Only one line of business showed improvement (75.4% in 2003 vs. 67.8% in 2002)	Efficiency has declined in Retail Financial Services, Commercial Financial Services and B2B Trust as a result of lack of growth in revenues. Efficiency ratio in Wealth Management and Brokerage benefited from the gain on sale of TSX Group Inc. shares.
Maintain strong capital ratios – Tier I capital ratio of at least 8.5% – Total capital ratio of at least 13.0%	8.9% 13.5%	Capital ratios are very strong at year-end and exceed our objective. On a reported basis, Tier I and total capital ratios stand at 10.2% and 15.2% respectively.

Objectives

Comparative figures for 2003 have been adjusted to a pro forma basis which excludes special items and the marginal contribution generated by the 57 branches sold (estimated at $26 million pre-tax for 2003 or $0.73 per common share). Our 2004-2006 targets have been set as follows:

	2003 PRO FORMA	2004	2005	2006
Return on common shareholders' equity	**4%**	5%	8%	10%
Diluted earnings per share	**$1.07**	$1.44	$2.37	$3.13
Total revenue	**$498M**	+ 1%	+ 8% to 10%	+ 7% to 9%
Efficiency ratio	**78%**	77%	73%	69%
Capital ratios				
Tier I capital ratio	**10.2%**(1)		Minimum of 9.5%	
Total capital ratio	**15.2%**(1)		Minimum of 13.0%	
Credit quality (loan loss ratio)	**0.24%**	0.22%	0.25%	0.25%

(1) As reported

Return on equity and earnings per share will be impacted in the short term by the lost contribution from the sale of our retail activities outside Quebec. The lost contribution, for these operations for 2004, 2005 and 2006, was forecasted at $24 million, $20 million and $17 million, respectively.

We expect to grow our loan and deposit books on an average of 8% per annum, which is expected to contribute directly to our objective of growing our revenues by an average of 6% per year.

The cost reduction program of 2003 will have an immediate positive impact on our efficiency ratios. However, improving productivity remains a priority for the Bank as our efficiency ratio still remains too high.

We are aiming at reducing our credit loan loss ratio in 2004 and increasing it slightly thereafter to reflect changes in the portfolio mix.

Our new business plan

The three-year business plan announced on December 3, 2003, represents a major change for Laurentian Bank. Given the financial results of the past two years and the increasingly fierce competition among financial institutions in Canada, the Bank decided to adopt a very rigorous business plan that affects all of the Bank's sectors of activity, and that precisely defines the strategies and actions that will enable us to turn this situation around over a three-year period, that is by 2006.

This plan results from the decision to capitalize on the Bank's strengths and highlight its distinctive traits. Overall, we are returning to basic principles and clearer positioning. The first concrete gesture spawned by this initiative was made in late fiscal 2003, when the Bank sold 57 branches in Ontario and Western Canada in order to better focus its efforts on reinforcing its market share in Quebec in the direct retail financial services sector. We already initiated a shift in June 2003 by implementing a major expense reduction program that notably lowered the number of members of our management committee and simplified our structure. The Bank also centralized its finance, risk management and human resources functions, reorganized its technology sector and enhanced the efficiency of its administrative centres.

Our business plan goes much further, but it also considers the fact that we will need the next three years to restore the Bank's growth and profitability, and enable it to build all of its operations on truly solid foundations.

We project, on a pro forma basis, a return on shareholders' equity of 5% in the first year (compared with 4% in 2003), 8% in 2005 and 10% in 2006. Projected earnings per share are $1.44 in 2004, $2.37 in 2005 and $3.13 in 2006, a growth of nearly 50% per year compared with 2003, again on a pro forma basis excluding special items.

OUR BUSINESS PLAN IN DETAIL

Retail Financial Services

For all aspects of this sector, we will emphasize our retail market in Quebec, while improving our already efficient strategy for distribution of indirect financial services throughout Canada.

To reach these goals, Retail Financial Services will deploy a four-pronged strategy:

1. It will renew the corporate "signature" of the Bank and optimize the branch network;
2. It will extend the innovative *Entrepreneurship* concept throughout the Quebec network;
3. It will adopt a "Retailer Approach" to better serve its customers; and
4. It will enhance its multi-channel strategy across Canada.

New Laurentian Bank "signature" and optimization of branch network

Ranked third in Quebec based on the number of branches, the Bank plans to reinforce its presence and reputation by opening 20 new branches by 2006, and by renovating, relocating or merging several of its existing branches. A special team, in charge of ensuring the success of the three-year optimization program, will supervise these changes and will analyse each of our current locations and other possible locations for our branches, according to precise criteria. It is essential that we follow our customers wherever they move, and be present in areas where our services can be appreciated. We can thus considerably build the loyalty of our customers—the acquisition of 43 branches in Quebec in 2000 is a step in this direction—and become the principal banker of even more Quebecers. At the same time, we will increase the number of automatic banking machines by 10% in the first year of the program, to better serve all our clientele.

We will also establish new standards governing every aspect of the design of our branches, and create a new official corporate "signature" for Laurentian Bank. To help us achieve this architectural repositioning, we have issued a call for tenders to five of the main architectural firms that specialize in retail trade. We have hired a designer firm to produce the exterior design of the branch, along with a new advertising firm. Our first branch with the new Laurentian Bank signature is expected to open in the Montreal suburbs of La Prairie by June 2004.

Expansion of the Entrepreneurship *concept*

The *Entrepreneurship* pilot project, launched in three local markets in early 2003, was primarily aimed at improving customer satisfaction. This project was intended to galvanize the sales force of our branch network, and thus stimulate profitable growth. The *Entrepreneurship* pilot project has definitely boosted the motivation of the staff, improved customer relations and consequently fuelled growth. Naturally, we want to ensure that our network benefits as much as possible from this initiative.

Concretely, the *Entrepreneurship* project will quickly spawn new actions and measures that will arouse the entrepreneurial spirit in our employees, while heightening their autonomy. First, we have grouped the branches into 25 local area markets, including the two existing local area markets (LAM)—Innova (in Eastern Montreal) and Longueuil—and appointed a manager to each LAM. While LAM managers will direct 3 to 10 branches, each branch will now be under the responsibility of a branch manager who will cultivate the development of the branch and ensure that the team of employees provides the best possible service to the customers. This decision is a major change in the Bank's branch network structure, but will in no way lead to staff reduction in the branches.

To ensure the success of each of these initiatives, we have designed a recognition program to promote awareness of our best employees and branches, which will serve as role models to create standards of excellence. We are also introducing an incentive compensation plan based on the profitability of each LAM.

"Retailer Approach" to customer service

As independent surveys clearly demonstrate, the Bank's customers are already highly satisfied with the Bank's services, but we must go further and offer quality service that differentiates the Bank from all of its competitors. We want to treat our customers like guests, by emphasizing a more consumer-oriented retailing approach.

Furthermore, to regularly gauge customer satisfaction and thus better grasp our clientele's expectations, a permanent evaluation panel composed approximately of 3,000 customers will be consulted four times a year, via the Internet. A new highly elaborate database will allow the Bank to precisely meet the needs of specific groups of customers during direct marketing campaigns, while a new advertising campaign starting January 2004 will aim to attract new customers to the Bank.

There is tremendous market potential for increasing the number of financial products and services offered to our customers. Specifically, we intend to significantly increase the average number of products held by a customer, notably by repositioning some of our products such as our VISA Gold card. Our newly implemented data warehouse will be instrumental in helping us attain this objective by enabling us to compile customer lists according to the specific objectives of our mass mailing campaigns and inbound and outbound activities performed by our Telebanking Centre.

Enhancing the multi-channel strategy across Canada

Business development activities in our indirect financial services network will be closely linked to direct Retail Financial Services. Already recognized as a leader in point-of-sale financing, particularly for recreational and motorized vehicles, the Bank has put in place mechanisms that will enable it to optimize the profitability of this type of activity within the next year. As a result, moderate growth is anticipated over the next three years.

Commercial Financial Services

Commercial Financial Services initiated a major turnaround in the past two years. Significant loan losses in our corporate portfolio prompted us to embark on a repositioning plan that included the reduction of our credit risk exposure, more stringent risk management processes and the development of a more personalized approach to meeting the needs of our commercial clients. This personalized approach is even more vital in that it is the main differentiating strength of Commercial Financial Services.

Regarding participation in syndicated loans and other corporate lending, the Bank will maintain its existing policy of not granting loans in excess of $20 million per single borrower. In the mid-market segment, the Bank intends to significantly increase the volume of high quality commercial loans in this portfolio by 2006.

We are recognized in the real estate market as a prime construction lender, a reputation we will continue to build on for years to come, notably by developing our real estate loan portfolio both inside and outside Quebec.

The Bank has realized that in small business banking, the market segment of the $250,000 to under $1 million loan exposures offers great potential. To streamline our structure and better serve this market segment, we decided to put Commercial Financial Services in charge of all commercial activities directed at businesses whose financial requirements exceed $100,000, while Retail Financial Services will meet the needs of businesses whose financial needs do not exceed $100,000.

We want to become a recognized player in farm lending, and plan to significantly increase the size of our agricultural loan portfolio in Quebec. To do so, we will draw on the expertise of a team of specialists that will focus exclusively on meeting the specific needs of agricultural entrepreneurs. These experts will be working out of five agricultural service centres in specially targeted regions.

B2B Trust

The turbulence in the mutual fund market in recent years has prompted B2B Trust to concentrate on developing credit products.

As B2B Trust's revenues have traditionally been closely linked to the sales performance of the mutual fund manufacturers and distributors, B2B Trust has had to cope with a difficult environment in the past two years. Despite capital markets' improvements, especially in the second half of 2003, investors have retained a cautious approach, as exemplified by sluggish mutual fund sales and continued redemptions in equity mutual funds. In 2003, B2B Trust consequently multiplied its efforts to increase its distribution alliances and solidify its leadership position in its traditional markets, while taking the first steps to diversify its sources of revenues, notably by reducing its exposure to mutual fund loans. B2B Trust has also maintained tight control of its expenses.

This diversification will continue: B2B Trust's asset growth for the coming years will progressively become less dependent on its mutual fund lending business. Indeed, B2B Trust will strive to achieve its growth through two strategies: an enlarged investment loan offering in terms of product design, delivery channels and markets reached, and a growing consumer loans business offered both through our traditional channels and through large retailers. The future growth of both top and bottom lines will rely on these two development axes.

Wealth Management and Brokerage

Regarding Laurentian Bank Securities, we will concentrate on growing our corporate finance and institutional activities. In our retail brokerage activities, we will stimulate referrals by other business lines and bolster our sales team. Moreover, we will add a transactional platform to our Internet site to support retail brokerage transactions. In addition, BLC-Edmond de Rothschild Asset Management will continue to generate organic growth in mutual funds, as well as in institutional and private portfolio management.

ADVANTAGES FOR OUR SHAREHOLDERS

Our shareholders have long benefited from our uninterrupted tradition of dividend payout. Subject to approval by the Board of Directors, we plan to maintain the dividend on common shares at its current level of $0.29 per share per quarter, providing that our financial objectives are attained and that we successfully maintain our capital ratios at high levels. The ratio of dividends paid should be 45% on average over a four-year period, including 2003.

CONCLUSION

Granted, this plan is ambitious, but it is also realistic. Everyone should emerge a winner: the shareholders can rely on a stable dividend from an institution that is consolidating its foundations; our employees will develop new competencies while increasing their autonomy; our customers will enjoy unparalleled service, and the Bank will develop its brand image that differentiates it from its competitors while building customer loyalty.

Management committee

2003	1991	2003	2002	2003	1998	1994
Réjean Robitaille	**Robert Cardinal**	**André Scott**	**Raymond McManus**	**Lorraine Pilon**	**André Dubuc**	**Bernard Piché**
Executive Vice-President, Retail Financial Services	Senior Executive Vice-President Finance, Administration [illegible] and Chief Financial Officer	Executive Vice-President, Comme[illegible] Financial Services	President and Chief Executive [illegible]	Executive Vice-President [illegible]	Senior Executive [illegible]	President and [illegible]
Chartered accountant and financier for 20 years At Laurentian Bank for 15 years	Chartered accountant for 33 years At Laurentian Bank for 12 years	Banker for 28 years At Laurentian Bank for 10 years	Banker for 43 years At Laurentian Bank for 15 years	Attorney for 14 years At Laurentian Bank for 13 years	Economist for 28 years At Laurentian Bank for 7 years	Financier for 29 years At Laurentian Bank for 9 years

Corporate governance

BOARD COMMITTEES

Laurentian Bank has often been a frontrunner in corporate governance in the Canadian banking sector. For one, it was the first bank to separate the functions of chairman of the board and president and chief executive officer. Its rules and corporate governance polices are among the most exemplary in the Canadian banking and financial industry.

As the executive committee was disolved at the start of the fiscal year upon recommendation by the Human Resources and Corporate Governance Committee, the Board of Directors itself has since then exercised all of the powers delegated to it.

The Board has established three committees, to which it has delegated particular responsibilities and functions. Their composition takes into account legislative requirements and the nature of their mandate. All of the Board committees are composed of outside directors who are independent of the management of the Bank. They all report in writing to the Board on their work.

The **Audit Committee** reviews the annual and quarterly financial statements of the Bank, along with all documents that are part of annual and quarterly financial disclosures, including press releases on quaterly financial results and Management's discussion and analysis of results of operations and financial condition. Moreover, the Committee ensures the implementation of appropriate control measures and of any financial matters that it deems appropriate or that is referred to it by the Board.

With regard to risk management, the Audit Committee:

- Ensures that the Bank has adopted control measures that allow adequate management of its activities and risks; and
- Ensures that Management and the Board have pertinent, precise and complete information, and that the Bank complies with regulations.

Moreover, the Committee is specifically in charge of supervising the Bank's internal audit function. In discharging their responsibilities, the Committee members meet, together and separately, with the officers and the external auditors to discuss financial matters within their terms of reference. They also meet annually with the Superintendent of Financial Institutions of Canada or his representative.

The **Human Resources and Corporate Governance Committee** results from the amalgamation, on May 29, 2002, of the Human Resources Committee and the Nominating and Governance Committee. As part of its human resources function, the Committee ensures that the compensation plan is compatible with the attainment of objectives and prudent management of its activities and risks; reviews and approves senior executive compensation, assesses in cooperation with the Board of Directors the performance of the President and Chief Executive Officer and reviews the performance of the members of the management and planning committees. It also reviews the administration of short-term and long-term incentive programs, approves the annual salary policy, periodically reviews the Bank's organizational structure and approves the appointment of the executive officers. It ensures the succession of senior management, and supervises the collective bargaining process of unionized employees and receives regular reports on relations between the Bank and its employees. As part of its corporate governance function, the Committee is in charge of implementing and monitoring the corporate governance rules. It ensures the proper functioning and the efficiency of the Board and its committees, and reviews their composition and nominations. It is this committee that proposes the appointment of new directors and evaluates current directors. Among other duties, it establishes orientation and training programs for board members, reviews the compensation of the directors in relation to their responsibilities, ensures that shareholders are properly informed of Bank affairs and deals with any major disagreement between the Bank and its shareholders. It also establishes the responsibilities and powers of the board committees.

The **Risk Management Committee** ensures that the Bank has adopted an adequate risk management process intended to identify, evaluate and manage risk, along with the formulation of adequate policies to manage credit, market, structural, capital management and operational risk. The Committee groups together three functions: conduct, credit and oversight. As part of its conduct function, the Committee monitors the application of methods for reviewing transactions with individuals or organizations related to the Bank. It monitors procedures for disclosure of information to customers concerning banking fees and of procedures for examining customer complaints. Annually, it reviews the Code of Ethics governing the Bank's employees and officers and approves the rules of conduct and behaviour that take risk into account. As part of its credit function, the Committee reviews the Bank's credit policies and procedures and ensures that the highest standards of quality are maintained. It also approves loans and advances exceeding the limit established by the Board, including loans and advances to employees and officers. Furthermore, in its oversight function, the Committee reviews conflict of interest situations between the Bank and its subsidiaries, along with conflicts concerning any individual that holds a dual position. It also examines the important agreements between the Bank and its subsidiaries.

Audit Committee

The Audit Committee consists of five outside directors:

Dominic J. Taddeo, Chair
Richard Bélanger
Ève-Lyne Biron
L. Denis Desautels
Gordon Ritchie

Human Resources and Corporate Governance Committee

The Human Resources and Corporate Governance Committee consists of four outside directors:

Pierre Michaud, Chair
Ronald Corey
Christiane Germain
L. Denis Desautels

Risk Management Committee

The Risk Management Committee consists of five outside directors:

Jonathan I. Wener, Chair
Jean Bazin
Gordon Ritchie
Georges Hébert
Veronica S. Maidman

Aimed at providing the Board with the authority, autonomy and information required to assume its responsibilities with regard to Management and shareholders, these policies and practices are evaluated regularly by the various Board of Directors' committees to ensure that they abide by the guidelines of the Toronto Stock Exchange for effective governance. A comparison with these guidelines can be found in the Management Proxy Circular prepared in connection with the 2003 fiscal year Annual Meeting.

Board of Directors

1998

Jonathan I. Wener

Chairman
of the Board
Canderel
Management Inc.

A renowned expert in the real estate sector, Jonathan Wener has vast experience in the commercial, industrial, residential, recreational and hotel sectors. Associated for 27 years with the success of Canderel Management, Mr. Wener contributes to the well-being of his community through his involvement in numerous professional associations and charitable organizations. He sits on different boards of directors including the Board of Governors of Concordia University, the Foundation of the Montreal Museum of Fine Arts, the Fondation du maire de Montréal (pour la jeunesse) and The Jewish General Hospital and its Foundation.

2001

Christiane Germain

Président
Germain
Group Inc.

Renowned for her vitality, rigour and great dedication, Christiane Germain made her mark in the restaurant and hotel sector. Her achievements earned her many awards and distinctions, and she has headed the Office du tourisme et des congrès de la Communauté urbaine de Québec, the Festival d'été de Québec and the Association des restaurateurs. Ms. Germain sits on the boards of directors of private companies. She actively participates in many fund-raising campaigns.

1990

Pierre Michaud, O.C.

Vice-Chairman
of the Board
Laurentian Bank
of Canada
Chairman
of the Board
Provigo Inc

Member of the Order of Canada, Pierre Michaud has a vast experience in the retail business as much as in corporate governance. He is Director of different companies including Loblaw Companies Limited, Capital d'Amérique and Société du Vieux-Port de Montréal and is a member of the Advisory Board of Mont-Tremblant. Very active in many charitable organizations, Mr. Michaud is a member of the board of trustees of Centraide, on the board of governors of the Fondation de l'Hôpital Sainte-Justine and the Fondation du Centre hospitalier universitaire de Montréal (CHUM).

2001

L. Denis Desautels, O.C.

Chairman
of the Board
Laurentian Bank
of Canada
Executive
in residence
School of
Management
University of
Ottawa

Fellow of the Ordre des comptables agréés du Québec and involved with a number of professional committees including the Accounting Standards Oversight Council of the Canadian Institute of Chartered Accountants, Denis Desautels is a recognized Canadian authority on governance. Auditor General of Canada from 1991 to 2001, he was appointed Officer of the Order of Canada in 2001. He also sits on the boards of directors of Alcan Inc., Bombardier Inc., Jean Coutu Inc. (PJC) and CARE Canada.

1994

Ronald Corey, O.C.

President
Ronald Corey
Groupe
Conseil Ltée

Member of the Order of Canada, Ronald Corey has displayed exceptional strategic abilities and exemplary social involvement throughout his career, both as honorary president of large fund-raising campaigns and foundations, and as president and CEO of Molson Centre or chairman of the board of the Port of Montreal. The organizations with which he collaborates benefit greatly from his rich experience in the business world.

2001

Veronica S. Maidman

Chair
Advisory Council
Equifax
Canada Inc

Veronica Maidman is an executive with outstanding strategic vision and a great capacity to meet challenges in a constantly evolving environment. Ms. Maidman sits on different corporate boards as well as the board of directors of Sunnybrook and Women's College Health Sciences Centre, recently completing her term as Vice Chair. Throughout the years she's worked with all levels of government concerning legislative and regulatory issues with particular emphasis on consumer privacy. She was featured in a report on the leaders of tomorrow in *Canadian Business Magazine.*

2002

Jean Bazin, Q.C.

Partner
Fraser Milner
Casgrain

Attorney since 1965, appointed Queen's Counsel in 1984 and a member of the Senate from 1986 to 1989, Jean Bazin chaired the Canadian Bar Association in 1987-1988 and the Quebec-Japan Business Forum in 1999. Jean Bazin has sat on the Board of Directors of the Bank from 1990 to 2000. Very active within the business community and various cultural organizations, he is known for his discipline and rigour. Mr. Bazin sits on the boards of different companies.

2003

Gordon Ritchie

Chairman,
Public Affairs
Hill & Knowlton
Canada

Gordon Ritchie was one of the main architects of the Free Trade Agreement between Canada and the United States. Throughout his illustrious career within the federal public service, he focused on economic development and international trade. On leaving government, he became a business consultant and is now Chairman of Hill & Knowlton Canada. He is also serving on the board of directors of Maple Leaf Foods Inc.

2003

Richard Bélanger

Senior
Vice-President,
Eastern Operations
and Corporate
Development
Canfor Corporation

A chartered accountant since 1980, Richard Bélanger became a member of the senior management of Canfor Corporation in 2003, following Canfor's purchase of Bois Daaquam, a company of which he was president and co-owner. His managerial qualities made him a leader in the timber industry. He is also co-chairman of the Canadian Lumber Trade Alliance, co-chairman of the International Trade Committee of the Quebec Forest Industry Council and administrator of Stella-Jones Inc.

2003

Ève-Lyne Biron

President and
General Manager
Laboratoire Médical
Biron Inc.

With a masters in administration to her credit, Ève-Lyne Biron is a young manager who aims for very concrete results and who is actively involved in her community. Her company was ranked 37th of the top 100 Canadian companies directed by women in 2003 and is a 2004 award winner of the Nouveaux Performants competition, "Entrepreneur" category. Ms. Biron sits on the board of directors of l'Orchestre symphonique de Longueuil and of DEL (Développement économique Longueuil).

1988

Raymond McManus

President and
Chief Executive
Officer
Laurentian Bank
of Canada

Raymond McManus has worked in the banking industry since 1960. On the strength of the expertise he developed in corporate loans early in his career, he was promoted to positions of increasing responsibility, including that of senior vice-president at the Mercantile Bank. He also founded Cafa Financial Corporation, a private investment bank specializing in mergers and acquisitions, corporate financing and real estate. Mr. McManus is president and chief executive officer of the Bank since August 2002.

1998

Dominic J. Taddeo

President and
Chief Executive
Officer
Montreal
Port Authority

A Montrealer by birth, Dominic J. Taddeo has dedicated most of his career to the maritime industry. Appointed president and chief executive officer of the Montreal Port Authority in 1984, he has played a pivotal role in the economic development of Montreal. He has received many honours and merits, including Transport Personality of the Year for the Province of Quebec and awards of distinction from the Faculty of Commerce and Administration of Concordia University and the Corporation professionnelle des administrateurs agréés du Québec. He is chairman of the board of EDICOM, a Montreal-based EDI project of strategic importance to Canada's transportation and trade community.

2003

Suzanne Masson

Senior
Vice-President,
Institutional Affairs
Caisse de dépôt
et placement
du Québec

An attorney by training, Suzanne Masson has held numerous high level positions within the Quebec public service and within an international financial institution. Ms. Masson was appointed interim administrator when she was a member of the management committee, Executive Vice-President, Corporate Affairs and Human Resources and Secretary of the Bank. She is now Senior Vice-President, Institutional Affairs for the Caisse de dépôt et placement du Québec. She sits on the boards of directors of the Conseil des arts et des lettres du Québec and the Arion Ensemble.

1990

Georges Hébert

President
Prosys-Tec Inc.

Georges Hébert, director of the Bank since 1990, has long been active in the transport sector. Notably he was president of Clarke Transport Inc. before acquiring, in 1988, J.A. Provost Inc., a supplier of home and commercial security systems. He sits on various boards of directors among which is MDS Aerospace.

Mr. Jean-Guy Desjardins and Mr. Réjean Gagné, absent from the photo, resigned from the Board of Directors in March 2003 and July 2003 respectively. Ms. Suzanne Masson left the Bank and the Board at the end of the fiscal year.

TO OUR CUSTOMERS

SERVICE
SERVICE
SERVICE

J. CHARBONNEAU – MANAGER, ADVISOR SERVICES, MONT ROYAL BRANCH

Our priority... your satisfaction and continuous improvement of the quality of services offered to you.

Quality Service

Because we have your future at heart... we constantly renew our expertise and our commitment to be there for you at all times, from managing your daily banking transactions to planning your financial security.

Proximity

Because your needs evolve quickly... we have adopted an approach with a human dimension that centres on listening to your needs, all the time, everywhere.

Simplicity

Because life is complicated enough... we constantly search for ways to simplify our products and services.

Flexibility

We have one objective in mind: you...That is why we encourage our employees to consider themselves entrepreneurs, and to show initiative in increasing your satisfaction.

REVIEW OF OPERATIONS

Throughout the 2003 fiscal year, the Bank faced formidable challenges in most of its sectors of activity. In a particularly gruelling economic context, all of our lines of business and corporate services had to multiply their efforts to maintain or enhance their profitability. In addition to having to substantially reduce costs during the past fiscal year, the Bank channelled all of its resources into the systematic evaluation of its operations, which culminated in the decision to carry out a major repositioning plan.

Fiscal 2003 was an opportunity for in-depth analysis and the starting point of a business plan intended to build a sound future and growth for Laurentian Bank.

Retail Financial Services

The highlight of the year for Retail Financial Services was undoubtedly the sale of 57 branches outside Quebec to TD Bank. This transaction enables the Bank to concentrate its efforts in the markets it knows best, and to consolidate its reputation among the financial institutions that do business in Quebec.

Net revenue of Retail Financial Services decreased in 2003, compared with the previous fiscal year. The reduction in net interest margins, fuelled by particularly fierce competition among financial institutions, has had a significant negative impact on the results of this sector. In Quebec, however, our branches reported slight growth in most of its loan and deposit portfolios, which augurs well for the coming year.

The *Entrepreneurship* pilot project, launched at the start of the 2003 fiscal year in three local markets, was enthusiastically welcomed by the staff and clientele of more than 20 branches involved in the project. The objectives of the project were twofold: to improve customer service and boost income through local market management that stands out because of its autonomy, accountability and financial recognition. The success of this experiment has motivated the Bank to extend the characteristics of the *Entrepreneurship* project throughout the network in the coming months. By becoming more attuned to the merits of empowerment, the employees will make Laurentian Bank an institution known for its flexibility, service quality, proximity and simplicity: four fundamental values that will now represent a common thread throughout the network.

The *simplified mortgage*, which already differentiates Laurentian Bank from its competitors, clearly translates this commitment to bring the Bank closer to its customers and offer practical, easy to use products and services that are adapted to diverse needs. The new database, developed by the Bank's marketing and information technologies teams, is an extremely valuable instrument in this context: by grouping all the data related to a given customer, the Bank can propose solutions that correspond to its customers' specific needs, thus eliminating wasted time and excess paperwork. The branches will particularly appreciate this new marketing tool, which provides them with new means to enhance their service.

The Bank has hired Marketel, one of the most prominent advertising agencies in Montréal, to carry out all of its advertising mandates. This change is part of Laurentian Bank's quest to reinforce its identity and adopt a distinctive position on the competitive retail financial services market in Quebec. Selected because of its keen understanding of the challenges the Bank is currently facing and for its capacity to implement effective marketing and advertising strategies, Marketel will work in close collaboration with the Bank's marketing sector to deploy strategies that will support the business development plan for retail financial services.

Retail Financial Services launched several innovative products in 2003: the variable rate mortgage loan, the new RSP line of credit, the Distinction line of credit, the Passport Program and the CPGAction Trust Plus are just a few of the new financial tools that Laurentian Bank makes available to its customers to respond to the full spectrum of their needs. The Distinction line of credit, for example, lets customers benefit from sure and flexible borrowing power on an ongoing basis, without having to renegotiate new financing on each occasion, coupled with an advantageous interest rate. The Passport Program gives Laurentian Bank Visa Gold card cardholders the occasion to make their dreams come true by using their reward points for "out of the ordinary" activities or high end products from these four categories: "Techno Fun", "À la carte", "Outdoor passions" and "Travel Chic", via a highly advantageous credit instrument. Lastly, CPGAction Trust Plus boasts two original characteristics: its capital is fully covered and its performance is pegged to that of a private portfolio composed of trust units.

Retail Financial Services also reorganized their distribution channels to form two distinct networks: the direct network, made up of the branch network, electronic networks and the TeleBanking Centre; and the indirect network, which includes point-of-sale financing, mortgage loans distributed by brokers and distributed by agents.

Therefore, Retail Financial Services is now managing all of the Bank's indirect retail services throughout Canada. A key strength of the Bank, indirect financial services will spearhead Laurentian Bank's development outside Quebec.

Commercial Financial Services

For Commercial Financial Services, 2003 was a year of transition and repositioning. After having identified and painstakingly analysed each of the aspects of its services offering, Commercial Financial Services set in motion a revitalization plan that will enable the sector to build its future on solid foundations. Notably, it reduced the maximum commitment that it may hold with the same commercial client from $40 million to $20 million. This repositioning effectively reduced Commercial Financial Services' commercial financing activities by roughly 10%. Nonetheless, the result was in keeping with the objective set, namely a significant decrease in the risk assumed by the Bank.

Given that Air Canada's financial problems significantly increased losses on loans, in the third quarter the Bank finalized the sale of the loan it had granted to Air Canada as part of a banking syndicate in which it held a minority interest of $19 million. By selling this holding, the Bank posted a provision of $10 million, equal to its total loss. The Bank thus ensured that the risk related to Air Canada would have no further impact on its results in subsequent fiscal years.

The increase in value of the Canadian dollar compared with the American dollar substantially eroded Canadian exports, compounded by the fact that the American economy, still fairly fragile, did little to invigorate the Canadian economy in 2003. There was a resulting constraint on demand for commercial financing in Canada, the effects of which were evidently felt by Commercial Financial Services.

Despite all of these factors, the contribution of Commercial Financial Services to the Bank's total revenues was once again highly impressive.

As for the future, Laurentian Bank aspires to become a leader in commercial financial services in Quebec in the small business and micro-entreprise niche. Its strategic partnerships with the Business Development Bank of Canada (BDC) and other lenders such as Farm Credit Canada will enable the Bank to expand its markets and demonstrate the exemplary accessibility of its teams to a larger number of clients, up to the highest levels of decision-making.

TO OUR EMPLOYEES

LET'S DO BETTER

JOHANNE SHEEHY – ASSISTANT VICE-PRESIDENT, PRIVATE BANKING

We will make a genuine effort to…offer a stimulating work environment that is conducive to developing our employees' skills.

Futhermore, in a quest to adequately meet the ever changing needs of its clients, Commercial Financial Services created a distinct sector for agricultural financing and opened a new real estate financing office in Ottawa, as Ontario represents 52% of the Bank's real estate financing portfolio.

It is important to note that the sale of branches in Ontario and Western Canada affects neither the quality nor the diversity of services offered by Commercial Financial Services outside Quebec. In effect, Laurentian Bank is maintaining a strong and dynamic presence in the rest of Canada, not only through its indirect retail financial services but also through a vast array of commercial services. Through B2B Trust, commercial financing, commercial mortgages, brokerage, foreign exchange and wealth management, the Bank plans to maintain and develop its services in the rest of Canada. The concentration of its efforts and energies in the niches it knows best, where it excels, will enable the Bank to truly be attuned to its customers so that it can propose financial products and services that are best suited to their needs.

To summarize, Commercial Financial Services have pinpointed the sectors in which they can be most effective. They now plan to take every measure to ensure that actively growing companies choose Laurentian Bank as their principal financial institution.

B2B Trust
B2B Trust, a federally chartered subsidiary, supplies financial products and services to more than 13,000 independent financial advisors across Canada.

Despite unfavourable conditions in the investment mutual fund market, B2B Trust consolidated its position as a leading supplier of banking and financial products to financial advisors in 2003: its clients include five of the ten largest mutual fund companies in Canada.

The fiscal 2003 results were nonetheless disappointing: net income for the year decreased by 29% over that of fiscal 2002. Market stagnation pressed mortgage loan volume downward and hampered the growth of the investment loan portfolio, which effectively modified the asset mix and significantly reduced net interest margins of B2B Trust. The RRSP campaign was lacklustre, as a change in regulation prompted several financial intermediaries to buy back a number of self-directed plans.

In this context, B2B Trust chose to focus its attention on three elements: cost management, growth of revenues arising from its numerous distribution agreements, and diversification of its service offering. Accordingly, B2B Trust acquired private-label loan products of Canadian Tire Financial Services in December 2002. By finalizing this transaction, B2B Trust reduced concentration of its credit products in the financial services sector and increased its diversification.

This strategy proved to be a wise one: by expanding its line of services, B2B Trust partly compensated for the drop in revenues caused by weakness in its usual markets. Its new products, notably private-label lines of credit and Advisors' Choice™ generic products, are ushering in a new line of services that B2B Trust plans to offer large retailers, services that will most likely generate increasingly substantial income.

In fact, valuable synergies exist among the various business lines of the Bank and B2B Trust. The launching of the new Canadian Tire line of credit, for example, has been made possible with the close cooperation of the Bank's Control and Savings Centre, which energetically worked within very tight deadlines to meet this formidable challenge.

B2B Trust has also entered into new distribution alliances with Northwest Mutual Funds Inc., Canada Life Assurance Company, Franklin Templeton Investments Corp., SSQ Financial Group and Return on Innovation Management Ltd.

In addition, B2B Trust launched a normal course issuer bid in May 2003. Convinced that this was an advantageous transaction for all the shareholders, B2B Trust Management planned to buy back 1,240,000 common shares, equal to approximately 5% of its outsanding common shares, between June 3, 2003 and June 2, 2004. As of October 31, 2003, more than 900,000 shares had been redeemed.

Therefore, B2B Trust is in an excellent position to take full advantage of the investment market recovery, in particular that of mutual funds, as soon as it occurs.

Wealth Management and Brokerage

The Wealth Management and Brokerage line of business groups the joint venture BLC-Edmond de Rothschild Asset Management and Laurentian Bank Securities (LBS), two specialized entities that offer private and institutional investors a range of investment products.

Spiralling investor confidence in recent years sparked extreme prudence in most investors, which generally lead them to choose their investment products with great care. In this particularly demanding environment, the efforts deployed by the teams of managers and advisors propelled the line of business Wealth Management and Brokerage to a 20% increase in its assets under management, which rose from $2.5 billion in 2002 to $3.0 billion in 2003, coupled with growth of profitability: net income increased from $0.9 million in 2002 to $8.7 million in 2003, following the sale of TSX Group Inc. shares.

While most of the competitors reported more redemptions than sales in 2003, BLC-Edmond de Rothschild Asset Management posted net positive results for its R Investment Funds. This joint venture, created four years ago, groups together two areas of expertise in financial management: La Compagnie Financière Edmond de Rothschild in Paris specializes in international markets, and Laurentian Bank possesses a keen knowledge of Canadian markets. The R Fund family lets investors diversify their portfolios and harness the growth not only of Canadian markets, but also of foreign markets. These funds contain shares of companies that offer excellent growth outlooks.

The R Distinction portfolios launched earlier this year offer an optimal combination of the best mutual funds distributed by the largest companies. This line of 30 mutual funds was selected from the top five families of Canadian investment funds. The portfolios were well received since their inception. At The Summit Creative Awards 2003, held in May 2003, BLC-Edmond de Rothschild Asset Management won the Bronze Award for printed materials designed for its R Distinction Portfolio. This world-class event honours the best advertising creations from around the world.

The excellence of the Dividend Fund and the Canadian Small-Cap Equity Fund was crowned by the American financial analyst firm Morning Star, which gave it a five-star rating in 2003.

Laurentian Bank Securities, a full-service securities broker, has carved out an enviable place in the Canadian brokerage market, and efforts put in place in the past four years to develop and refine its distribution network should deliver very satisfactory results. Well known for its research service, trading desks and advanced technology, LBS has acquired exceptional, sought after expertise available to institutions, governments and to its retail clientele. By specializing in corporate financing, it has developed a full array of debt financing instruments for large companies. Moreover, its Financial Planning Service, offered throughout the branch network, is an extraordinary tool for all the Bank's customers.

TO OUR SHAREHOLDERS

ONE WORD: PERFORMANCE

ALICIA ZEMANEK – VICE-PRESIDENT, INVESTOR RELATIONS AND INTEGRATED RISK MANAGEMENT

JEAN-FRANÇOIS LESSARD – SENIOR ACCOUNT MANAGER, RETAIL BANKING, PLACE DE LA CITÉ BRANCH

We have put in place a three-year business plan that will…improve our performance and maintain a relationship based on transparency.

Laurentian Bank Securities has rationalized and optimized its operations, and has now attained the critical mass to accelerate its development and offer its clients complete solutions, which will fully satisfy them. Its five fundamental values: respect for individuals, integrity, primacy of the client, team spirit and accountability, are all strengths that endow Laurentian Bank Securities with solid foundations and make it an indispensable component of the branch network.

Corporate sectors

Since the announcement of the restructuring plan in June, the organizational structure of the Bank has included four corporate sectors: Treasury and Financial Markets; Finance, Administration and Strategic Development; Human Resources; and Corporate Affairs and Secretary's office. To meet the many challenges the Bank is facing, these four sectors deployed considerable effort in 2003 to orchestrate, within very tight deadlines, changes necessitated by the restructuring project and expense reduction program. They also made an invaluable contribution to the development of the new business plan.

Treasury and Financial Markets

The main role of the Treasury and Financial Markets sector is to optimally manage the Bank's capital, notably by matching assets and liabilities. With interest margins subject to pressure throughout the year owing to slumping interest rates, this challenge was quite daunting, yet the sector emerged unscathed, and continues to contribute significantly to the Bank's revenues.

Laurentian Bank is renowned for the exceptional quality of its treasury management, which compares favourably with that of its competitors despite its size. In response to the market volatility of 2003, the Treasury specialists turned to derivative products and developed index-based products to spur dynamic portfolio management inspired by models of their own design. This original development, which meets a market need, yielded excellent returns. Foreign exchange transactions also generated interesting revenues, demonstrating once again the quality and expertise of our specialists in this sector.

The Treasury and Financial Markets sector therefore cultivated the most profitable lines of development in 2003, and has adopted the means to track market trends more effectively, which concomitantly stimulates team spirit and heightens the motivation of the sector's entire staff.

Finance, Administration and Strategic Development
Since last September, the Finance, Administration and Strategic Development sector includes seven functions: strategic planning and control; mergers and acquisitions; taxation; investor relations and integrated risk management; information technologies; administrative services; and real estate management and purchasing. This grouping is intended to enhance efficiency at all levels, while improving reaction time and consequently boosting the already high satisfaction rate among all of the Bank's customers.

Finance, Administration and Strategic Development played a crucial role in the formulation of the three-year strategic repositioning plan. In addition, its Mergers and Acquisition function coordinated the negotiation of the sale of 57 branches in Ontario and Western Canada and facilitated the conversion of branches affected by the transaction.

The Investor Relations function is particularly crucial at this point in the Bank's history, as the Bank must ensure that analysts and investors fully grasp the strategic repositioning plan. It is more important than ever that each decision be clearly explained and that the consequences be well understood, particularly by Bank shareholders and investors as a whole.

To attain its objectives of efficiency and better risk control, the Bank restructured its integrated risk management function in September. It thus improved its methods and now measures up to best practices in the banking industry.

The Information Technologies function allocated considerable financial resources in 2003 to put in place the new data warehouse. Investments were also channelled into upgrading the entire information system infrastructure. A users committee was formed to analyze, in tandem with representatives of all of our lines of business, each of the projects submitted, and to measure user satisfaction.

Regarding Administrative Services, the centralization of operations, now completed, has generated substantial savings and synergies. The administrative centres make in-depth expertise in each of the products the Bank offers available to the branch network and other lines of business, while lightening the administrative workload of branch employees. They are evidently playing a crucial role in the conversion of branches sold to TD Bank, ensuring a seamless transition for the customers.

The Real Estate Management and Purchasing team made a noteworthy effort in 2003 to implement mechanisms that will improve the Bank's lease management. They also formed a high level committee that will optimize real estate management at the Bank and bring it in line with best practices in this area.

Human Resources and Corporate Affairs
Throughout the fiscal year, namely until October 31, 2003, Human Resources and Corporate Affairs reported to the same vice-president. Since November 1, however, these responsibilities have been shared by two distinct sectors, which include several multidisciplinary teams:

- Human Resources manages and develops human resources, including the negotiation and renewal of collective agreement; and
- Corporate Affairs coordinates public affairs, legal affairs and compliance, the secretary's office, corporate security and internal audit.

The highlight of 2003 for Human Resources was the unfolding of the process that is expected to culminate in a win-win agreement between the Bank and its unionized employees. Hearings of the arbitration committee began on September 16, the arbitration process is binding and a decision is expected by mid-year 2004. The Bank plans to achieve a positive partnership with its employees that will enable it to progress concertedly, while providing employees with advantageous work conditions.

Human Resources worked diligently in 2003 to re-evaluate positions in relation to the market. The *Employee Guide* was also reworked and updated, to take into account the evolution of the working conditions of the Bank's non-unionized employees.

The Corporate Affairs sector manages all functions related to legal affairs and the Bank's compliance with legislation, regulations and guidelines issued by governments and regulatory authorities. To this effect, it participates in all the Bank's strategic matters, such as preparing and negociating the agreement with TD Bank. It also includes internal audit, a function that is controlled directly by the Audit Committee, and which plays a vital preventive role for all of the lines of business and services. It is also in charge of all aspects of security, notably the money laundering prevention program.

Moreover, through the Public Affairs and Communications Department, the Bank provides effective and rapid communication of information and messages to its various audiences, while enhancing Laurentian Bank's brand image within the financial services industry and among the general public. The Corporate Affairs sector plays an essential supporting role for the Boards of Director by performing tasks related to the Secretariat of the Bank and its subsidiaries. One of the sector's concerns is the development and implementation of the bank's policies and practices in corporate governance.

The appointment of Mr. L. Denis Desautels as Chairman of the Board, at the start of the fiscal year, demonstrated once again the vital importance of corporate governance at the Bank. Renowned across Canada for the firmness of his positions on governance, Mr. Desautels was the ideal candidate to chair the Board of the Bank.

The Board has thoroughly evaluated all of its corporate governance processes, notably by means of an elaborate questionnaire, submitted to all the Directors. It also created a new pension plan management committee, in charge of effectively managing the various pension plans, along with their capacity to adequately meet current and future needs.

The financial results of each business line are presented in Note 23 of the consolidated financial statements, on page 94 of this Annual Report.

NEW OMBUDSMAN

Laurentian Bank and its subsidiaries appointed a new ombudsman on October 1, 2003. Ms. Chantal Bélanger had previously held the position of Senior Vice-President, Retail Financial Services, Québec.

The role of ombudsman consists of serving as a mediator between customers and the Bank. The ombudsman's actions are intended to resolve complaints that are not settled to the customers' satisfaction as part of the Bank's complaint resolution process. The ombudsman therefore acts as a mediator, in a neutral and impartial fashion. She also plays a proactive role by advising the Bank of shortcomings and recommending changes that enable the Bank to better meet the needs of its customers and the general public.

Employed at Laurentian Bank since January 1986, Chantal Bélanger is the first woman to assume the responsibilities of ombudsman at the Bank, and is one of the rare women to hold this position in a large Canadian bank. Holder of the professional titles of financial planner and CGA, Ms. Bélanger was president of the Ordre des CGA in 2002-2003 and has served as the chairman of the board of directors of the Édouard-Montpetit College in Longueuil since June 2000.

Chantal Bélanger succeeds Mr. Robert S. Robson, who had been the ombudsman of the Bank for 5 years.

This section of the Annual Report is Management's discussion and analysis of the results of operations and financial condition of the Bank for the year ended October 31, 2003. The information is presented on the same basis as in the consolidated financial statements prepared in accordance with Canadian generally accepted accounting principles (GAAP), including the accounting requirements specified by the Office of the Superintendent of Financial Institutions Canada (OSFI), which conform, in all material respects, to GAAP.

METHODOLOGY OF ANALYSIS OF RESULTS

Management evaluates the Bank's performance on a core basis, that is excluding special items, and on a reported basis, as presented in the consolidated financial statements. Management views special items as transactions that are not part of normal day-to-day operations or are unusual in nature and could potentially distort the analysis of trends. This distinction is made in order to ensure that Management's analysis of recurring trends is not hindered. Therefore, the Bank's results on a core basis are different from reported results determined in accordance with GAAP. Net income, excluding special items is not a defined term under GAAP, and therefore may not be comparable to similar terms used by other issuers. Certain 2002 comparative figures have been reclassified to conform to the current year presentation in order to make the analysis more meaningful to users. Special items have been reported in 2003 and 2002 and are presented in Table 1 of this analysis on page 36 of this Annual Report.

STRATEGIES AND OBJECTIVES

Other sections of this Annual Report contain important information concerning the Bank's strategies and objectives. Readers should refer to these sections to obtain further information, which complements this "Management's discussion and analysis of the results of operations and financial condition" section.

CRITICAL ACCOUNTING POLICIES

The significant accounting policies are outlined in Note 1 to the consolidated financial statements on page 70 of this Annual Report. In our view, the following policies are critical, since they refer to material amounts and require Management to make estimates that by their very nature involve uncertainties.

Allowance for losses

The allowance for losses reflects Management's estimate of losses related to loan portfolios and other assets. Considering the importance of amounts and related uncertainties, the use of different estimates and assumptions in determining the allowance for losses could produce significantly different levels of provisions. Changes in circumstances may cause future assessments of credit risk to be materially different than current assessments and may require an increase or decrease in the allowance for losses.

Goodwill and other intangible assets

Under the goodwill and other intangible assets accounting standard, goodwill and intangible assets with indefinite useful lives are no longer subject to amortization, but instead have to be tested for impairment, at least annually, based on their fair values. For goodwill, the impairment test initially compares the fair value of the reporting unit to which goodwill relates to its carrying amount. The Bank uses different methods to value its reporting units. The use of other methods or different assumptions could lead to significantly different valuations and accordingly affect results.

Other than temporary impairment of securities

In circumstances where Management determines that an other-than-temporary impairment of a security has occurred, the carrying value of the security is written down to its estimated net realizable value. This determination involves judgement. Once it has been determined that the security has suffered an other-than-temporary decline in value, Management must estimate net realizable value of the security. The use of different assumptions could lead to different determinations of which securities have suffered an other-than-temporary impairment and could lead to significantly different amounts of impairment charges from the amounts actually recorded.

Employee future benefits

Valuation of employee future benefits, for defined benefit plans and other postemployment benefits, is based on a number of assumptions such as discount rates, expected returns on assets and projected salary increases. Considering the importance of accrued benefit obligations and plan assets, changes in assumptions may produce significantly different results.

Income taxes

Future income tax assets reflect Management's estimate of the value of loss carryforwards and other temporary differences. The determination of the asset value is based on assumptions related to results of operations of future periods, timing of reversal of temporary differences and tax rates on the date of reversals. The use of different assumptions may produce significantly different results.

ECONOMIC REVIEW

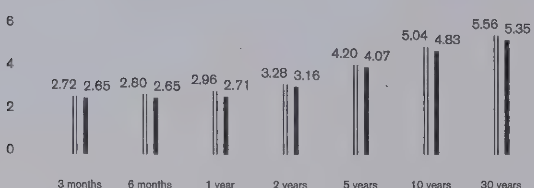
In 2003, world growth sustained the upswing which began in 2002. This renewed vigour was nonetheless hindered, at first, by a very hesitant recovery in the United States and the European zone's teetering on the brink of recession. Geopolitical uncertainty, which reached its peak between January and March 2003, dampened the firm return of general confidence throughout the year. Rare instability on the exchange markets also stunted the growth of the world economy in 2003.

The European economy vacillated considerably: in Germany, economic growth hovered at zero, compounded by a worrisome plunge in the inflation rate; the French economy fared slightly better, but, as in Germany, the labour market remained very sluggish. Overall, the industrial production of European economies remained in the red and the lack of confidence had repercussions on retail sales. In the United Kingdom, growth was robust, spurred by the sound health of the housing sector and vigorous retail sales. In terms of monetary policy, the European Central Bank reduced its policy rates: the main refinancing rate dropped from 3.25% in 2002 to 2% by year-end 2003. The Bank of England followed suit, but to a lesser extent; it recently began to tighten its monetary conditions.

In the United States, growth was impeded early in the year by the war in Iraq. Once the conflict was over, by the end of March 2003, geopolitical tensions rapidly dissipated, but the post-war rebound failed to occur: signs of the recovery in the United States began to be significant and firm only beginning in July. The long correction period is now giving way to very positive economic fundamentals: American companies have realized huge productivity gains, posted strong performance in terms of profits and trimmed their inventories to historic lows. Note, however, that these gains were achieved to the detriment of the labour market. Showing early stirrings of a recovery, this market is still sluggish, imperiling the U.S. economy as a whole, in which two thirds of GDP are supported by consumers. Companies' prudent resumption of recruitment was offset by increased investment, an important growth engine in 2003.

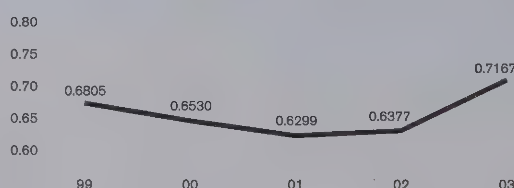
Yield Curve

Treasury Bills and Government of Canada Bonds
As at October 31, as a percentage



Canadian Dollar Average Exchange Rate

In U.S. Dollars



═ 2002
▬ 2003

Disinflationary pressures observed throughout the year were followed closely. Whereas the delayed recovery was cause for concern, the possibility of deflation also surfaced. Anemic inflation combined with lacklustre performance of the job market convinced the Federal Reserve to maintain a highly accommodating monetary policy. After having lowered policy rates 11 times since the beginning of 2001, the U.S. central bank initiated a final rate decrease in mid-2003: the federal funds rate ended the year 2003 at 1.0%, its lowest level in 40 years.

The Canadian economy started 2003 off in good health, a remarkable feat given the economic and political instability in the United States. Strengthened by strong domestic demand, the Canadian economy even manifested signs of potential overheating, particularly regarding inflation, which peaked at 4% in February 2003, vastly exceeding the limits set by the Bank of Canada. The Bank reacted quickly, tightening monetary conditions twice. A few months later it had to reverse its course, as the Canadian economy suddenly fell victim to a series of totally unexpected shocks, compressing growth into negative territory in the second quarter of 2003. The wave of crises included the outbreak of SARS, mad cow disease, forest fires in British Columbia, Hurricane Juan in the Maritimes and the massive power failure in Ontario. Another unforeseeable event was the sharp rise in the Canadian dollar vis-à-vis the U.S. dollar, which moved from U.S.$0.65 at the start of the year to about U.S.$0.77 by year's end. The negative impact of a stronger currency on exports was compounded by anemic U.S. demand for Canadian products during the first half of the year. That being said, internal demand remained very robust in 2003, fuelled by a construction sector that maintained its vitality and job creation that, while much more modest than that of 2002, was still positive.

The spread between Canadian and U.S. policy interest rates was 175 basis points at year-end 2003. Barring a major geopolitical or economic disturbance, and assuming that exchange markets regain stability, the Bank of Canada is likely to leave policy rates unchanged until its U.S. counterpart increases interest rates, at which point it will do the same. Monetary conditions are expected to become tighter in North America by late 2004. However, should the impact of the higher Canadian dollar on exports prove to be stronger than expected, the Bank of Canada has served notice that it stands ready to reduce interest rates to offset that impact, possibly in the first quarter of 2004.

Projected growth rates are 2.0% for Canada and 3.0% for the United States in 2003. For 2004, these same forecasts stand at 3.0% in Canada and 4.3% in the United States.

SUMMARY OF FINANCIAL RESULTS

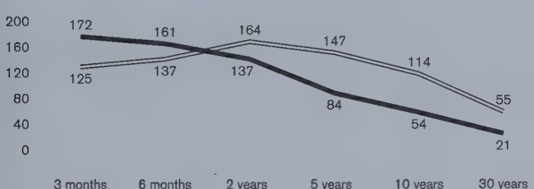
For the year ended October 31, 2003, the Bank reported net income of $91.9 million or $3.32 diluted per common share, compared with $44.3 million or $1.26 diluted per common share in 2002. Return on common shareholders' equity (ROE) climbed to 12.4% in 2003 from 4.8% in 2002. The 2003 results include the gain resulting from the strategic decision to sell 57 branches in Ontario and Western Canada and other special items, while 2002 results were affected among other reasons by an additional provision of $70 million related to the Bank's exposure to Teleglobe and other commercial loans, as detailed in Table 1.

Excluding these special items, net income would have been $56.2 million or $1.80 diluted per common share in 2003, compared with $86.7 million or $3.09 diluted per common share in 2002. The decrease of 35% in core profitability year over year mainly results from pressure on other revenues, slightly lower net interest margins, additional provision for loan losses, as well as an increase in expenses.

Capital ratios, which improved throughout the year, have reached record levels following the completion of the sale of the Ontario and Western Canada branches. As at October 31, 2003, BIS Tier I capital and total capital ratios stood at 10.2% and 15.2% respectively, up from 8.8% and 13.5% in 2002.

Interest Rate Spreads

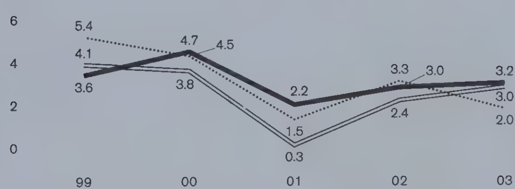
Difference between Canadian and U.S. Rates
As at October 31, in basis points



= 2002
▬ 2003

GDP Growth Rate

As a percentage



▬ World
= U.S.
···· Canada

TABLE 1

Effect of special items

Consolidated statement of income, as reported In millions of dollars, except per share amounts	**2003**	2002	**Variation 03/02**
Net interest income	**$343.2**	$346.0	**(1)%**
Other income	**286.7**	254.4	**13**
Total revenue	**629.9**	600.4	**5**
Provision for credit losses	**54.0**	111.0	**(51)**
Non-interest expenses	**441.8**	407.3	**8**
Income taxes	**38.6**	32.5	**19**
Income before non-controlling interest in net income of a subsidiary	**95.5**	49.6	**93**
Non-controlling interest in net income of a subsidiary	**3.6**	5.3	**(32)**
Net income	**$ 91.9**	$ 44.3	**107%**
Net income available to common shareholders	**$ 77.9**	$ 29.3	**166%**
Average number of common shares (in thousands)	**23,416**	23,095	**1%**
Average number of common shares after dilution (in thousands)	**23,457**	23,288	**1%**
Net income per common share			
Basic	**$ 3.33**	$ 1.27	**162%**
Diluted	**$ 3.32**	$ 1.26	**163%**
Return on common shareholders' equity	**12.4%**	4.8%	

Special items In millions of dollars, except per share amounts	**2003**	2002
Gain on sale of Ontario and Western Canada branches ($54.9 net of income taxes)	**$ 69.9**	$ –
Loan losses related to the exposure to Air Canada ($6.5 net of income taxes)	**(10.0)**	–
Loan losses related to exposures to Teleglobe and other commercial loans ($42.4 net of income taxes)	**–**	(70.0)
Restructuring costs ($12.8 net of income taxes)	**(19.7)**	–
Special items before income taxes	**40.2**	(70.0)
Income taxes on special items	**4.6**	(27.6)
Effect on net income	**$ 35.6**	$ (42.4)
Effect on diluted net income per common share	**$ 1.52**	$ (1.83)

Consolidated statement of income, excluding special items In millions of dollars, except per share amounts	**2003**	2002	**Variation 03/02**
Net interest income	**$343.2**	$346.0	**(1)%**
Other income	**216.8**	254.4	**(15)**
Total revenue	**560.0**	600.4	**(7)**
Provision for credit losses	**44.0**	41.0	**7**
Non-interest expenses	**422.1**	407.3	**4**
Income taxes	**34.1**	60.1	**(43)**
Income before non-controlling interest in net income of a subsidiary	**59.8**	92.0	**(35)**
Non-controlling interest in net income of a subsidiary	**3.6**	5.3	**(32)**
Net income	**$ 56.2**	$ 86.7	**(35)%**
Net income available to common shareholders	**$ 42.3**	$ 71.6	**(41)%**
Diluted net income per common share, excluding special items	**$ 1.80**	$ 3.09	**(42)%**
Return on common shareholders' equity, excluding special items	**6.7%**	11.7%	

SALE OF 57 BRANCHES IN ONTARIO AND WESTERN CANADA

The sale of 57 branches in Ontario and Western Canada had a significant impact on the financial condition of the Bank. It also was a very profitable operation as the Bank recorded a $69.9 million pre-tax gain on the sale. Even more so, the transaction will have a considerable impact on the remaining operations of the Bank, providing additional financial flexibility to focus on the fields where it has real competitive advantages. But it will also have an immediate unfavourable impact on the Bank's financial results in 2004 due to the loss of business volume.

Impact on results of operations in 2003

The transaction, which closed on October 31, 2003, generated a pre-tax gain of $69.9 million. The sale price reflects the book value of assets sold, less liabilities assumed plus a premium of $112.4 million. The gain on sale takes into account specific costs to transfer the business as well as other fees related to the transaction, valued at $11.8 million. As part of the transaction, the Bank also wrote off certain capital assets and deferred charges related to Ontario and Western Canada operations valued at approximately $16.0 million. Hedging instruments used to manage the loan and deposit portfolios' exposure to interest rate risks were also disposed of, generating a loss of approximately $14.7 million.

Impact on financial condition

The agreement concluded with the TD Bank mainly relates to a loan portfolio of $1.965 billion and a deposit portfolio of $1.885 billion. Assets used in connection with the business at the branch level and other related receivables were also included in the transaction. Table 2 summarizes the assets and liabilities related to the transaction.

TABLE 2

Assets and liabilities related to branches sold

In millions of dollars

Residential mortgage loans	$1,541
Commercial mortgage loans	121
Personal loans	274
Commercial loans and other	29
Other	19
	$1,984
Personal deposits	$1,613
Business and other deposits	272
Other	85
	$1,970

The transaction also benefited the Bank's financial condition as reflected by its improved capital ratios. A lower level of risk-weighted assets (see Capital section on page 48 of this Annual Report for further details) and an increase in capital as a result of the gain on sale had a combined positive impact of 1.4% and 1.7% on Tier I and Total capital ratios.

Impact on future operating results

As evidenced by the premium obtained from the sale of the 57 branches, the banking activities which were sold generated positive earnings. As of the beginning of 2004, the Bank has thus lost a significant contribution to its results. This stream of revenues will need to be recuperated by the remaining activities of the Bank to ensure it improves its profitability in the future. Accordingly, a three-year plan has been developed to respond to this challenge (please refer to "Our new business plan", on page 12 of this Annual Report section for further information on the three-year plan). The pre-tax results of the Ontario and Western Canada branches were estimated at $14.1 million in 2003. These results take into account corporate, back office and technology charges of $18.5 million of which $12.2 million cannot be reduced immediately and will need to be reallocated to other retained activities. Therefore, the combined effect of the disposal of the branches on 2003 pre-tax income is estimated at $26.3 million ($17.1 million, net of income taxes).

OPERATING RESULTS

Net income was $91.9 million for the year or $3.32 diluted per common share compared with $44.3 million or $1.26 diluted per common share in 2002. Excluding special items as detailed previously, net income would have been $56.2 million or $1.80 diluted per common share in 2003, compared with $86.7 million or $3.09 diluted per common share in 2002.

Results for the 2003 year, as reported, take into account the $69.9 million pre-tax gain on the sale of the Ontario and Western Canada branches, $19.7 million pre-tax net restructuring charges and a $10.0 million pre-tax charge related to Air Canada, as described in Table 1 and detailed below.

- As discussed previously, the Bank sold its network of branches in Ontario and Western Canada (except for its two branches in Ottawa). The transaction, which closed on October 31, 2003, generated a gain of $69.9 million. Also, Note 2 to the consolidated financial statements further details the transaction.
- In light of the disappointing results from operations and the sale of the Ontario and Western Canada branches, the Bank has reviewed its priorities and initiated an expense reduction program resulting in a $21.5 million restructuring charge. Technology-based projects such as the multi-company platform were abandoned, which resulted in a charge of $10.4 million. An additional compensation expense of $6.3 million was incurred as a result of personnel reductions and changes in the Management committee. Charges of $4.8 million were recorded in relation to operating leases and certain other occupancy charges. On an annual basis, these initiatives are expected to reduce the Bank's expense base by $9.0 million in 2004. As a result of the sale of the branches in Ontario and Western Canada, provisions of $1.8 million initially recorded under the 2001 program to restructure some of these branches were also reversed since these costs will no longer be incurred, resulting in a net restructuring charge for the year of $19.7 million.
- During the year, loan losses were affected by the performance of the corporate loan portfolio. A $10.0 million charge related to the Air Canada exposure was recorded. In its analysis of potential alternatives, the Bank decided to dispose of its entire position at what it deemed to be a very reasonable price.
- Results for the 2002 year, as reported, take into account a $70.0 million pre-tax charge related to Teleglobe and other commercial loan exposures.

Total revenue

Total revenue was $629.9 million in 2003, $560.0 million excluding the $69.9 million gain on the sale of the Ontario and Western Canada branches, compared with $600.4 million in 2002, corresponding to a 7% decrease. The reduction is mainly attributable to a decrease in other income from securitization activities, treasury and financial markets operations and lending fees, as detailed below. For the year, the net interest margin remained relatively stable, although a number of factors, such as variation in volumes and interest rates had significant influence.

Net interest income

The Bank's net interest income, as detailed in Table 3 below, decreased by $2.8 million or 1%, from $346.0 million to $343.2 million and the net interest margin decreased from 1.86% to 1.85%. The average prime lending rate increased from 4.15% in 2002 to 4.69% in 2003, improving net interest margin on the Bank's variable rate portfolios. However, related off-balance sheet derivative financial instruments had a $20.3 million negative impact on net interest income. Derivative financial instruments are effective tools to manage interest rate risk and liquidity risk. Depending on the evolution of interest rates and the composition of portfolios in terms of maturity and types of product (fixed and variable rates), actual returns on portfolios can fluctuate substantially. Accordingly, the Bank uses derivative financial instruments to manage its risks and net interest income must be reviewed on a hedged basis. The Bank uses models to quantify the potential impact on earnings and equity arising from a variety of possible future scenarios as further detailed in the Integrated Risk Management section on page 55 of this Annual Report.

Intense competition in retail banking in Canada continued to be a major concern for the Bank. The highly competitive market has lead to more aggressive pricing resulting in lower spreads on fixed-term products, which account for approximately 71% of the Bank's loan portfolio. Furthermore, asset mix has evolved toward a slightly higher proportion of liquid assets and securities, including assets purchased under reverse repurchase agreements, which has reduced interest margins. Excluding the effect of the sale of the branches, the deposit base grew from 2002 to 2003, reflecting continued prudent investment strategies by the Bank's clients. Average interest on deposits and other liabilities was stable at 3.6% during the year. This fact, combined with the increase in deposit volumes, lowered the Bank's cost of funds. However, the decrease in loan volumes, mainly in the commercial loan and residential mortgage loan portfolios, limited the Bank's investment alternatives, which offset the positive impact of deposit increases on net interest margins. Active management of primary and secondary liquidity portfolios (cash resources, securities and assets purchased under reverse repurchase agreements) has again been efficient, generating returns of 2.52% in 2003, compared to 2.16% in 2002. The 36 basis point increase in returns is largely attributable to the increase in short-term rates and changes in portfolio mix.

TABLE 3

Changes in net interest income

For the years ended October 31
In millions of dollars and as a percentage

	2003			2002			Change		
	Average volume	**Interest**	**Average rate**	Average volume	Interest	Average rate	Due to volume	Due to rate	Total
Assets									
Cash resources	**$ 497**	**$ 11.7**	**2.35%**	$ 288	$ 5.0	1.74%	$ 3.7	$ 3.0	$ 6.7
Securities	**3,099**	**76.5**	**2.47**	3,323	73.3	2.21	(4.9)	8.1	3.2
Assets purchased under reverse repurchase agreements	**845**	**23.5**	**2.79**	561	11.9	2.11	6.0	5.6	11.6
Loans									
Personal	**3,901**	**268.1**	**6.87**	3,677	256.6	6.98	15.7	(4.2)	11.5
Residential mortgages	**6,665**	**416.2**	**6.24**	6,784	440.3	6.49	(7.6)	(16.5)	(24.1)
Commercial mortgages	**856**	**57.3**	**6.69**	903	58.9	6.52	(3.1)	1.5	(1.6)
Commercial and other	**1,942**	**104.5**	**5.38**	2,328	119.0	5.11	(19.7)	5.2	(14.5)
Other	**743**	**0.9**	**0.12**	706	0.6	0.08	–	0.3	0.3
Total – assets	**$18,548**	**$958.7**	**5.17%**	$18,570	$965.6	5.20%	$ (9.9)	$ 3.0	$ (6.9)
Liabilities									
Notice and demand deposits	**$ 2,650**	**$ 22.7**	**0.86%**	$ 2,436	$ 19.2	0.79%	$ 1.7	$ 1.8	$ 3.5
Fixed-date deposits	**12,535**	**528.7**	**4.22**	12,631	564.9	4.47	(4.2)	(32.0)	(36.2)
Other	**1,351**	**16.1**	**1.19**	1,429	18.0	1.26	(1.0)	(0.9)	(1.9)
Off-balance sheet derivative financial instruments	**–**	**20.3**	**–**	–	(10.2)	–	–	30.5	30.5
	16,536	**587.8**	**3.55**	16,496	591.9	3.59	(3.5)	(0.6)	(4.1)
Subordinated debentures	**400**	**27.7**	**6.94**	400	27.7	6.94	–	–	–
Acceptances	**278**	**–**	**–**	317	–	–	–	–	–
Other liabilities	**502**	**–**	**–**	539	–	–	–	–	–
Shareholders' equity	**832**	**–**	**–**	818	–	–	–	–	–
Total – liabilities	**$18,548**	**$615.5**	**3.32%**	$18,570	$619.6	3.34%	$ (3.5)	$ (0.6)	$ (4.1)
Net interest income		**$343.2**	**1.85%**		$346.0	1.86%	$ (6.4)	$ 3.6	$ (2.8)

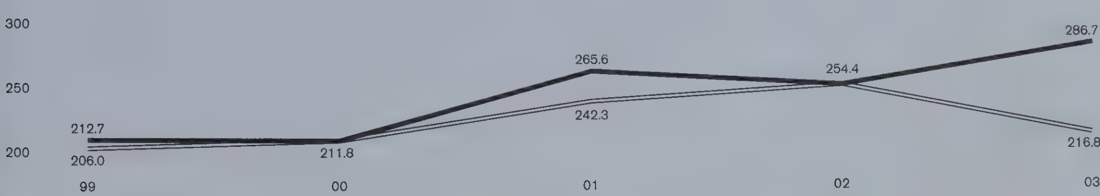
Other income

Other income was $216.8 million in 2003, excluding the gain on the sale of the Ontario and Western Canada branches of $69.9 million, compared with $254.4 million in 2002, corresponding to a 15% decrease. This variation is principally attributable to a decrease in securitization activities, lower treasury and financial markets revenues and a decline in lending fees.

Revenues from fees and commissions on loans and deposits reached $101.5 million, compared to $112.8 million in 2002. The decrease of $11.3 million, or 10%, is essentially attributable to a reduction of lending fees, which decreased to $37.8 million in 2003 from $48.6 million in 2002. The $10.8 million or 22% reduction is related to the repositioning of commercial lending activities in 2003 with the corresponding decrease in business and risk-weighted assets.

Other Income

In millions of dollars



As per financial statements
Excluding special items.

Revenues from treasury and financial markets operations totalled $50.9 million in 2003, compared to $61.9 million in 2002. These revenues include gains resulting from management of primary and secondary liquidity portfolios. As noted last year, treasury and financial markets revenues had attained exceptional levels in 2002 due to favourable market conditions. The 2003 revenues were again impressive compared to prior periods as the investment environment remained favourable. Current year's results were also affected by the write-down of certain securities amounting to $4.7 million as certain sectors of the economy continued to show weaknesses.

Commissions from brokerage operations decreased to $16.7 million from $19.2 million, a decline of $2.5 million or 13%, reflecting lower trading volumes in 2003. These revenues have been decreasing since 2000, when they peaked at $23.8 million, as a combined result of downsizing of retail activities and sluggish markets. However, profitability on these operations improved as related costs also decreased.

Mutual fund revenues decreased by $3.2 million to $10.7 million for 2003. This reflects the lost contribution resulting from the sale of the IRIS family of funds to BLC-Edmond de Rothschild Asset Management (BLC-EdR) in December 2001 and lower commission revenues stemming from net redemptions.

Insurance revenues improved significantly from $5.3 million in 2002 to $6.7 million in 2003, a $1.4 million or 26% increase. This results from a lower level of claims on mortgage insurance, which more than offset the reduced level of premiums on personal loans.

Securitization revenues dropped to $1.0 million in 2003 from $16.1 million in 2002. Due to lower securitization needs as a means of funding and for capital management purposes, only $40.0 million of loans were securitized in 2003 compared to $703.3 million in 2002, which resulted in lower securitization gains. Also, gains generated from securitization activities from prior periods decreased as securitized loans matured. Furthermore, revisions in assumptions used to value retained interests in securitized assets, mainly in the pre-payment rates, negatively affected securitization results. Note 5 to the consolidated financial statements further details these activities.

Other revenues in 2003 were positively impacted by the pre-tax gain of $8.5 million ($6.7 million, net of income taxes) on the sale of TSX Group Inc. shares while a pre-tax loss of $2.6 million ($1.7 million, net of income taxes) on the disposal of real estate negatively affected results.

Table 4 presents the changes in other income from 1999 to 2003.

TABLE 4

Other income

For the years ended October 31 In millions of dollars	**2003**	2002	2001	2000	1999	**Variation 03/02**
Fees and commissions on loans and deposits						
Deposit service charges	**$ 51.3**	$ 51.4	$ 47.8	$ 39.4	$ 38.3	**–%**
Lending fees	**37.8**	48.6	43.6	32.7	29.7	**(22)**
Card service revenues	**12.4**	12.8	13.5	8.8	8.0	**(3)**
Sub-total – Fees and commissions on loans and deposits	**101.5**	112.8	104.9	80.9	76.0	**(10)**
As a % of average assets	**0.55%**	0.61%	0.61%	0.56%	0.59%	
Other						
Revenues from treasury and financial market operations	**50.9**	61.9	48.7	40.5	43.7	**(18)**
Commissions from brokerage operations	**16.7**	19.2	23.3	23.8	17.3	**(13)**
Revenues from registered self-directed plans	**12.6**	13.2	14.4	12.9	13.4	**(5)**
Revenues from sale and management of mutual funds	**10.7**	13.9	17.9	16.8	14.5	**(23)**
Insurance revenues	**6.7**	5.3	4.5	4.5	4.5	**26**
Trust services	**2.1**	1.8	1.4	2.3	4.8	**17**
Securitization revenues	**1.0**	16.1	18.7	22.2	25.4	**(94)**
Other	**14.6**	10.2	8.5	7.9	6.4	**43**
Gain on sale of branches	**69.9**	–	–	–	–	**n/a**
Other special items	**–**	–	23.3	–	6.7	**–**
Sub-total – other	**185.2**	141.6	160.7	130.9	136.7	**31**
As a % of average assets	**1.00%**	0.76%	0.94%	0.91%	1.06%	
Total – other income	**$286.7**	$254.4	$265.6	$211.8	$212.7	**13%**
As a % of average assets	**1.55%**	1.37%	1.55%	1.47%	1.65%	

Provision for credit losses

The provision for credit losses, as reported, was $54.0 million in 2003 or 0.37% of average loans, bankers' acceptances and assets purchased under reverse repurchase agreements ($44.0 million or 0.30% excluding the provision for loan losses related to the exposure to Air Canada), including the impact of the reversal of general allowances, as detailed below. In 2002, the provision was $111.0 million or 0.77% of average loans, bankers' acceptances and assets purchased under reverse repurchase agreements ($41.0 million or 0.29% excluding the provision for loan losses associated with the Bank's exposure to Teleglobe and other commercial loans).

Excluding the impact of the sale of the Ontario and Western Canada branches, the 2003 provision for credit losses increased as a result of higher loan losses in personal loans and commercial loans, partially offset by lower losses in residential and commercial mortgages, which continued to perform even better than anticipated.

Personal loans provisions increased from $23.2 million in 2002 to $26.3 million in 2003. In recent years, the Bank has significantly increased its consumer loan (mainly point-of-sale financing) portfolios which represented 38% of personal loans in 2000 and now account for 47%. As the portfolios reache maturity, loan losses slightly increase. Nonetheless, for personal loans, the loss ratio is still relatively low at 0.7%.

Provisions for commercial loans grew to $28.9 million as a result of the $10.0 million loss related to the exposure to Air Canada and due to a $5.8 million charge related to a single exposure in the manufacturing sector.

General allowances decreased to $77.3 million at October 31, 2003 from $85.5 million at year-end 2002, a decrease of $8.2 million. As part of the determination of the gain on sale of the branches, a reduction of the allocated general allowance of $4.5 million has offset increases in provisions for loan losses resulting from non-performing loans retained in the context of the sale of the Ontario and Western Canada branches. Another reduction of $4.0 million in the unallocated general allowance, related to the overall decrease of exposure to credit risk during the year, was recorded as a reduction of the provision for credit losses in the statement of income. See Note 4 to the consolidated financial statements for more details.

Table 5 presents the provision for credit losses from 2001 to 2003.

TABLE 5

Provision for credit losses

For the years ended October 31, in millions of dollars	2003 (1)	2002	2001
Personal loans	**$26.3**	$ 23.2	$16.1
Residential mortgages	**1.2**	2.9	2.2
Commercial mortgages	**1.6**	2.6	4.2
Commercial loans and other	**28.9**	82.3	12.5
Sub-total	**58.0**	111.0	35.0
Effect of the reversal of general allowances	**(4.0)**	–	–
Total – provision for credit losses	**$54.0**	$111.0	$35.0
As a % of average loans, bankers' acceptances and assets purchased under reverse repurchase agreements	**0.37%**	0.77%	0.25%

(1) Excluding the impact of the sale of the Ontario and Western Canada branches.

Non-interest expenses

Non-interest expenses were $441.8 million for the year. Excluding the net restructuring provision of $19.7 million, non-interest expenses were $422.1 in 2003, up from $407.3 million in 2002, representing an increase of $14.8 million or 4%.

Salaries and employee benefits, which account for 46% of total non-interest expenses, increased by $6.2 million, from $198.7 million to $204.9 million. Even though performance targets were not attained, the gain from the sale of the branches prompted the Board of Directors to approve a financial incentive of $7.1 million for employees, thus recognizing the efforts required in implementing the three-year repositioning plan and favoring retention. Pension costs increased by $3.2 million, which also affected compensation costs. The increase of pension costs in 2003 is primarily due to the recent decline in the value of plan assets due to weak equity markets in 2001 and 2002. These increases were partially offset by a reduction in salary expenses resulting from a decrease in the number of employees. Readers are referred to Note 14 of the consolidated financial statements on page 84 of this Annual Report for more detailed information on pension plans.

The number of full time equivalent employees has been reduced to 3,159 at October 31, 2003 from 3,730 at October 31, 2002. The sale of the Ontario and Western Canada branches at year-end involved the transfer of 427 employees (376 full-time equivalent employees) to the TD Bank. The cost reduction program undertaken during the second half of 2003 was responsible for most of the remaining decrease of 195 employees.

Premises and technology costs increased from $120.1 million in 2002 to $129.0 million in 2003. Rent and property taxes increased during the year due to an increased proportion of leased branches, while technology costs increased due to higher depreciation charges and higher fees for the Bank's outsourced technology operations.

Other expenses, excluding restructuring costs, remained stable at $88.2 million in 2003 compared to $89.1 million in 2002. Table 6 illustrates the changes in non-interest expenses from 1999 to 2003.

TABLE 6

Non-interest expenses

For the years ended October 31 In millions of dollars	**2003**	2002	2001	2000	1999	**Variation 03/02**
Salaries and employee benefits	**$204.9**	$198.7	$212.9	$177.2	$162.9	**3%**
As a % of average assets	**1.10%**	1.07%	1.24%	1.23%	1.26%	
Premises and technology						
Depreciation	**42.4**	39.2	36.1	30.9	27.0	
Rent and property taxes	**38.8**	34.2	33.5	28.9	25.2	
Equipment and computer services	**38.4**	37.2	36.2	27.7	28.3	
Maintenance and repairs	**6.3**	6.5	7.1	6.3	6.9	
Public utilities	**1.9**	2.0	2.4	2.3	2.7	
Other	**1.2**	1.0	0.6	0.5	0.2	
Sub-total – premises and technology	**129.0**	120.1	115.9	96.6	90.3	**7%**
As a % of average assets	**0.70%**	0.65%	0.67%	0.67%	0.70%	
Restructuring costs	**19.7**	(0.6)	17.5	–	5.5	**n.m.**
As a % of average assets	**0.11%**	–%	0.10%	–%	0.04%	
Other expenses						
Taxes and insurance	**24.5**	25.2	25.9	17.8	22.6	
Fees and commissions	**18.8**	21.3	17.1	18.9	20.2	
Communications and travelling expenses	**18.1**	18.6	18.8	17.2	16.9	
Advertising and business development	**12.2**	11.2	10.9	9.4	10.1	
Stationery and publications	**6.9**	7.1	7.2	6.3	5.8	
Recruitment and training	**2.2**	1.9	2.4	1.8	2.9	
Other	**5.5**	3.8	16.9	8.1	7.3	
Sub-total – other expenses	**88.2**	89.1	99.2	79.5	85.8	**(1)%**
As a % of average assets	**0.47%**	0.47%	0.58%	0.56%	0.67%	
Total – non-interest expenses	**$441.8**	$407.3	$445.5	$353.3	$344.5	**8%**
As a % of average assets	**2.38%**	2.19%	2.59%	2.46%	2.67%	
As a % of total revenue (efficiency ratio)	**70.1%**	67.8%	70.6%	72.0%	77.7%	

Efficiency ratio
The efficiency ratio, excluding the gain on the sale of the Ontario and Western Canada branches and the restructuring provision, increased to 75.4% in 2003, compared with 67.8% in 2002. Increases in non-interest expenses, combined with the decrease in total revenues hampered efficiency. Management closely monitors the efficiency ratio and has already taken steps, through the cost reduction program, review of processes and stricter controls over hiring and expense approvals, to increase efficiency. The following graph details the performance of the Bank over the last years.

Income taxes
Income tax expenses for the year 2003 were $38.7 million (28.8% effective tax rate) compared with $32.4 million (39.5% effective tax rate) in 2002. The lower effective tax rate in 2003 results principally from lower income taxes on the gain resulting from the sale of the Ontario and Western Canada branches and on the gain on the sale of TSX Group Inc. shares. Excluding these items, the effective tax rate remained relatively stable at 39.3% in 2003 compared to 39.5% in 2002. Additional information concerning the tax position, the provision for income taxes and effective tax rates is also presented in Note 16 of the consolidated financial statements on page 86 of this Annual Report.

FINANCIAL CONDITION

2003 has been a year of transition for the Bank. Increasingly intense competition, particularly in the mortgage market in Ontario and Western Canada, was one of the main factors behind the decision to sell the 57 branches in these regions. The Bank begins 2004 with a stronger financial position and a lower risk profile as evidenced by capital ratios that now reach record levels. The repositioning of Commercial Financial Services, initiated in 2002, also had a significant impact on the loan portfolio during the year.

On October 31, 2003, total assets of the Bank, including assets under administration, stood at $32.2 billion, compared with $33.5 billion on October 31, 2002. Balance sheet assets stood at $16.7 billion, down 10% from 2002, whereas assets under administration totalled $15.5 billion, $0.6 billion higher than last year. These changes are explained in more detail in the "Balance sheet assets" and "Assets under administration and management" sections that follow.

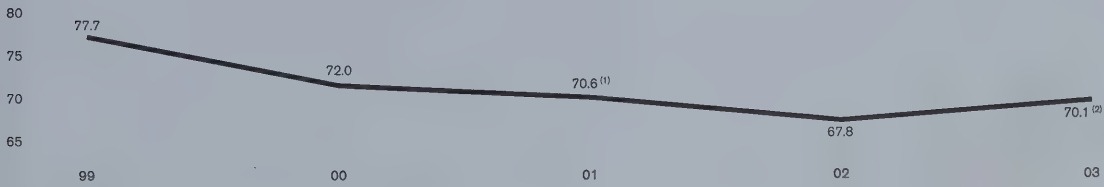
Balance sheet assets
Balance sheet assets stood at $16.7 billion at October 31, 2003 compared with $18.6 billion at year-end 2002, for a decrease of $1.9 billion or 10%, as detailed in Table 7 on page 44 of this Annual Report. The decrease is solely related to the sale of the Ontario and Western Canada branches as total assets sold amounted to $2.0 billion. Even though total assets decreased at year-end, average assets remained stable at $18.5 billion in 2003.

Cash resources and securities increased by $0.4 billion or 11% over the year, from $3.5 billion in 2002 to $3.9 billion in 2003. The increase results from the cash generated by the sale of the Ontario and Western Canada branches and the growth of personal deposits, which outpaced loan growth. Liquidities now account for 23.3% of total assets, compared to 18.8% in 2002.

Assets purchased under reverse repurchase agreements, which are similar to very short-term investments, remained stable at $0.9 billion as at October 31, 2003 and 2002.

The portfolio of loans and bankers' acceptances before allowance for loan losses, decreased to $11.4 billion at October 31, 2003 from $13.7 billion in 2002. Excluding the impact of the sale of the branches, loans and bankers' acceptances would have stood at $13.4 billion. This decrease of $0.3 billion mainly results from lower commercial mortgages and commercial loans portfolios, as a result of the repositioning of Commercial Financial Services initiated in 2002.

Efficiency ratio
Non-interest expenses as a percentage of total revenue



(1) 70.4% excluding special items
(2) 75.4% excluding special items

Other assets, excluding bankers' acceptances, declined to $681.2 million as at October 31, 2003 from $767.8 million as at October 31, 2002. The 11% decrease results mainly from a reduction of capital assets since depreciation and write-offs recorded during the year exceeded new investments. The Bank invested significant resources in information technology for new product offerings and new initiatives over the last five years, which are steadily being depreciated. Capital investments were lower in 2003, since there were no significant new projects and the Bank was reviewing its strategic positioning. Also, the sale of the Ontario and Western Canada branches contributed to the decrease for approximately $14.2 million.

Table 7 presents additional information on changes in balance sheet assets.

TABLE 7

Balance sheet assets

As at October 31, in millions of dollars	2003	2002	2001	Variation 03/02
Cash resources and securities	$ 3,906	$ 3,504	$ 2,506	11%
Assets purchased under reverse repurchase agreements	882	870	650	1
Loans				
Personal	3,646	3,865	3,532	(6)
Residential mortgages	5,274	6,646	6,971	(21)
Commercial mortgages	705	956	910	(26)
Commercial and other	1,572	1,873	2,160	(16)
	11,197	13,340	13,573	(16)
Allowance for loan losses	(163)	(218)	(134)	(25)
Total loans	11,034	13,122	13,439	(16)
Other assets	916	1,100	1,101	(17)
Balance sheet assets	$16,738	$18,596	$17,696	(10)%
Cash resources and securities as a % of balance sheet assets	23.3%	18.8%	14.2%	
Loans and assets purchased under reverse repurchase agreements as a % of balance sheet assets	71.2%	75.2%	79.6%	

Loan portfolio mix

The Bank's loan portfolio consists of personal loans, residential mortgages, commercial mortgages and commercial loans, including bankers' acceptances. At year-end the loan portfolio stood at $11.4 billion, down from $13.7 billion in 2002, before allowance for loan losses.

On October 31, 2003, the personal loan portfolio totalled $3.6 billion, representing 32% of the Bank's loan portfolio compared to 28% in 2002.

Residential mortgages represent 46% of this portfolio on the same date compared to 49% in 2002, whereas the proportion of commercial mortgages is 6%, compared to 7% in 2002.

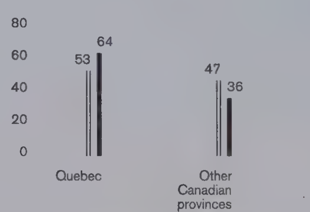
Commercial loans and other loans, including bankers' acceptances, consisting mostly of loans to Canadian small- and medium-sized businesses, decreased by $398 million or 18% during the year, from $2.2 billion in 2002 to $1.8 billion at October 31, 2003. This portfolio represents 16% of the Bank's loan portfolio, the same level as last year. The Bank retained its commercial portfolio outside Quebec, since it was not part of the sale of the branches. Therefore, the proportion of commercial and other loans to total loans did not decrease even though this portfolio decreased by $398 million during the year.

Loan Portfolio Mix

As a percentage

Geographic Distribution of Loans

As a percentage



= 2002
▬ 2003

Geographic diversification
On October 31, 2003, the geographic distribution of the Bank's loans remains diversified, even after giving effect to the disposal of the Ontario and Western Canada branches, from which only 35% of all loans outside Quebec originated. The Bank maintains a strong presence outside Quebec, through indirect retail lending and financing, point-of-sale financing, B2B Trust and commercial financing. Loans located in Quebec nonetheless increased to 64% of total loans, while loans outside of Quebec declined to 36% from 47% a year ago.

Loan size by commercial borrower
As decided in the 2002 commercial lending repositioning strategy, the Bank maintained the limit for the maximum loan to a single new borrower at $20 million. The limit had been $40 million for commercial loans prior to May 2002. As a result, the Bank still holds positions where exposures exceed $20 million. At the beginning of the process in 2002, there were 20 such loans, whereas only 7 remained as at October 31, 2003. The limit for commercial mortgages remains unchanged at $20 million.

Insurance and guarantees
At the end of 2003, 57% of the Bank's residential mortgages were insured by the Canada Mortgage and Housing Corporation (CMHC), compared to 61% at the same date last year. The portfolio insurance program enables the Bank to decrease its overall credit risk and improve its capital ratios. This policy is consistent with the Bank's financial management strategy where through insuring a large proportion of its residential mortgages, the Bank maintains its capacity to pursue its securitization activities if needed and thus optimally finance its operations, manage its cash resources, improve its capital ratios and simultaneously reduce credit risks associated with this type of loan.

Buildings with five units or less comprise 81% of the volume of residential mortgages outstanding, a significant number of which are single-family units, with an average loan balance of $85,300, compared to $76,500 at the end of 2002. A wide range of construction projects, commercial properties, shopping centres and office buildings as well as plants, warehouses and industrial condominiums were held as security for commercial mortgages.

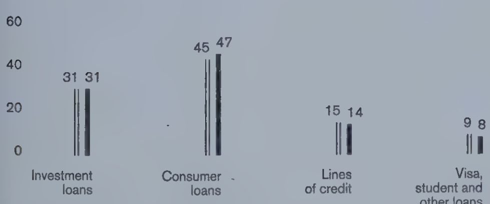
Most of the investment loans which are in B2B Trust's portfolios and are part of the personal loan portfolio, are secured by an average of four to five mutual funds, providing good diversification of risk. The value of these investments must respect the terms and conditions of loan agreements at all times. A large proportion of the Bank's loan portfolio is thus insured or secured by assets pledged as collateral by the borrowers.

Loan portfolio evolution

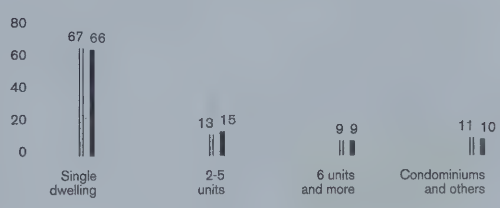
Personal loans
On October 31, 2003, the personal loan portfolio was $3.6 billion, a decrease of $0.3 billion or 6% compared with $3.9 billion on the same date in the year 2002. Excluding the impact of the sale of the Ontario and Western Canada branches, the portfolio increased by $55 million over the year. Consumer loans and investment loans represent the larger portion of the portfolio at 47% and 31% respectively.

Growth in point-of-sale financing volumes was $250 million in 2003, compared to $350 million last year. Growth in volume slowed following the review of pricing and commissioning strategies. This increase in volumes was partially offset by declines in investment loans, including RRSP loans, of $68 million and in other portfolios. Investment loans stood at $1,114 million as at October 31, 2003, compared to $1,182 million a year ago, as the difficult mutual fund market limited growth potential.

Personal Loan Portfolio Mix
As a percentage



Residential Mortgage Loans by Property Type
As a percentage



2002
2003

Residential mortgages

As detailed in Table 8, excluding the impact of the sale of the Ontario and Western Canada branches, total residential mortgage loan portfolios, including both reported and securitized loans, declined by $0.4 billion from October 31, 2002 to October 31, 2003. Despite favourable housing market conditions, intense competition in the mortgage market limited the Bank's ability to grow the portfolios, especially outside Quebec. Mortgage loan volumes in Quebec grew slightly by $0.1 billion in 2003, but this was offset by accelerated erosion in Ontario and Western Canada where volumes decreased by $0.5 billion. Loans, as reported on the balance sheet, but excluding the impact of the sale of the Ontario and Western Canada branches, increased by $0.2 billion mainly as a result of the renewal of maturing securitized loans.

TABLE 8

Residential mortgage loans portfolio

As at October 31, in billions of dollars	**2003**	2002
Residential mortgage loans, as reported on the balance sheet	**$5.3**	$6.6
Portfolio sold to TD Bank	**1.5**	n/a
Residential mortgage loans, excluding the impact of the sale of the portfolio to TD Bank	**6.8**	6.6
Securitized loans	**0.8**	1.4
Total residential mortgage loans, including securitized loans	**$7.6**	$8.0

Commercial mortgages

The Bank is a leader in commercial mortgage lending in Canada. The Bank's commercial mortgage loan portfolio stood at $705 million at the end of 2003, compared with $956 million on October 31, 2002. Including securitized commercial mortgage loans, total commercial mortgages amounted to $796 million as at October 31, 2003, compared to $1,116 million as at October 31, 2002. The decline results mainly from the sale of certain loans in the amount of $121 million as part of the sale of the Ontario and Western Canada branches, and maturities, which outpaced new disbursements.

On October 31, 2003, Ontario and Western Canada represented 55% (61% as at October 31, 2002) of the commercial mortgage loan portfolio, Quebec 45% (39% as at October 31, 2002).

Commercial loans

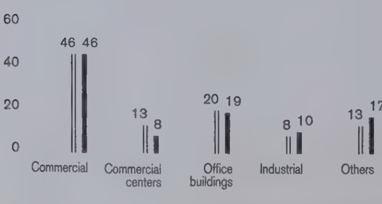
On October 31, 2003, the Bank held a commercial loan portfolio, including bankers' acceptances, amounting to $1.8 billion, compared to $2.2 billion on October 31, 2002, a decrease of $398 million or 18%.

The decrease in the Bank's commercial loan portfolio is principally a result of actions taken to reduce credit risk exposure. The repositioning was principally related to the corporate portfolio. Commercial Financial Services is an important business for the Bank and an area where it can compete efficiently and build good client relationships. As the economic situation improves, this portfolio is positioned for growth in core markets where the Bank has proven expertise.

Commercial loans are well diversified by industry as shown in the following graph. The largest portion of the loan portfolio, 20%, is in the manufacturing sector. The Other sector, which represents 14% of the portfolio, includes social services, health and certain other industries.

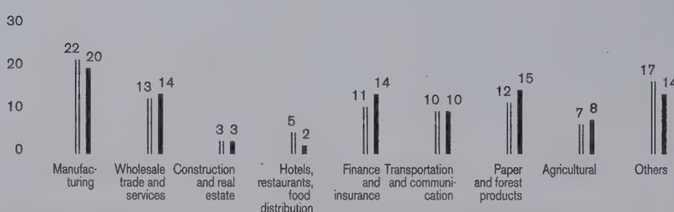
Commercial Mortgage Loans by Property Type

As a percentage



Commercial Loans by Industry

As a percentage



2002
2003

Impaired loans

Based on the level of gross impaired loans as at October 31, 2003, credit quality has improved compared to the situation at the same date a year ago. Lower than anticipated loan losses on residential and commercial mortgage loan portfolios helped offset higher losses on personal and commercial loan portfolios. Gross impaired loans decreased from $227.0 million as at October 31, 2002 to $185.2 million as at October 31, 2003, representing a decrease of $41.8 million or 18%. All portfolios contributed to the improvement as detailed in the Table 9.

TABLE 9

Impaired loans

As at October 31, in millions of dollars

	2003			2002		
	Gross	Specific allowances	Net	Gross	Provisions allowances	Net
Personal loans	$ 19.6	$ (9.3)	$ 10.3	$ 24.4	$ (8.6)	$ 15.8
Residential mortgages	14.0	(3.7)	10.3	14.1	(6.9)	7.2
Commercial mortgages	13.0	(6.1)	6.9	26.6	(17.2)	9.4
Commercial loans and other	138.6	(66.8)	71.8	161.9	(99.7)	62.2
Total	$185.2	$(85.9)	$ 99.3	$227.0	$(132.4)	$ 94.6
General allowances			(77.3)			(85.5)
Total – net impaired loans			$ 22.0			$ 9.1
As a % of total loans and bankers' acceptances and assets purchased under reverse repurchase agreements			0.2%			0.1%

Specific provisions decreased by $46.5 million from $132.4 million as at October 31, 2002 to $85.9 million at October 31, 2003, mainly as a result of the write-off of commercial loans. Net impaired loans increased to $22.0 million (0.2% of total loans, bankers' acceptances and assets purchased under reverse repurchase agreements) as at October 31, 2003, compared with $9.1 million (0.1% of total loans, bankers' acceptances and assets purchased under reverse repurchase agreements) as at October 31, 2002, including the impact of the general allowance as discussed previously.

General allowances are recorded to provide for potential losses in the loan portfolios that have not yet been specifically identified as impaired. The general allowance was $77.3 million as at October 31, 2003, compared to $85.5 million in 2002. The decrease results from the reversal of the allowance as previously explained. The 2003 allocated general allowance of $53.1 million is mainly based on historical loss ratios and an economic cycle reference factor for the different portfolios. The unallocated general allowance takes into account recent changes in portfolio mix, in economic and business conditions as well as model and estimation risks. As a percentage of risk-weighted loans, including bankers' acceptances, the general allowance remained stable at 1.10%, compared to 1.06% in 2002. The reduction in general allowance was offset by the positive impact from the decrease in volumes following the sale of the branches in Ontario and Western Canada and the reduction in commercial loans portfolios. See Note 4 to the 2003 consolidated financial statements for more details.

Assets under administration and management

Assets under administration and management consist of financial instruments and other assets administered, serviced or managed on behalf of others, which are not recorded on the balance sheet as the Bank does not exercise control over them. The Bank derives fee income from these assets. Included are commercial and residential mortgage loans under management related to securitization activities, assets held by customers for which the Bank provides services such as investment, trading, administrative services and collection of investment income, as well as assets of self-directed plans offered by its subsidiary B2B Trust.

The Bank, through its subsidiary Laurentian Bank Securities and its joint venture interest in BLC-Edmond de Rothschild Asset Management (BLC-EdR), also manages personal, institutional and mutual fund portfolios.

On October 31, 2003, assets administered by the Bank stood at $15.5 billion compared with $14.9 billion on October 31, 2002 as detailed in Table 10. The year over year increase in self-directed retirement plans is mainly attributable to the performance of the markets which had a positive impact on their valuation. Mortgage loans under management decreased as a result of reduced securitization activities. Mutual funds assets increased as a combined result of market performance and positive net sales. Institutional assets increased significantly as a result of new business development by BLC-EdR. Client brokerage assets and personal trust assets remained relatively stable.

TABLE 10

Assets under administration

As at October 31, in milions of dollars	2003	2002	2001	Variation 03/02
Self-directed RRSPs and RRIFs	**$ 8,512**	$ 8,009	$ 8,328	**6%**
Institutional	**2,644**	2,058	1,432	**28**
Mortgage loans under management	**1,428**	2,055	2,289	**(31)**
Clients' brokerage assets	**1,345**	1,316	1,513	**2**
Mutual funds	**1,238**	1,157	1,238	**7**
Other – Personal	**321**	298	295	**8**
Total – assets under administration	**$15,488**	$14,893	$15,095	**4%**

Deposits

Total personal deposits decreased by $1.5 billion during the fiscal year, from $12.0 billion in 2002 to $10.5 billion in 2003. Excluding the impact of the sale of branches, personal deposits increased by $114 million, reflecting continued investor preference for deposit products.

The Bank maintained its strong presence with independent financial advisors through its B2B Trust line of business and its indirect network of agents throughout Canada. As at October 31, 2003, B2B Trust's deposits remained relatively stable at $2.2 billion compared to $2.3 billion as at October 31, 2002. The deposit portfolio of Retail Financial Services, including agents' deposits, was $8.3 billion at year-end 2003, a $0.2 billion increase over 2002 excluding the impact of the sale of Ontario and Western Canada branches. Personal deposits in the Quebec branch network amounted to $5.6 billion as at October 31, 2003 and $5.3 billion as at October 31, 2002. Agents' deposits were $2.8 billion as at October 31, 2003 and 2002 while Ontario and Western Canada deposits were $1.6 billion as at October 31, 2003, prior to the sale of the branches and $1.5 billion as at October 31, 2002.

Personal deposits represent 79% of total deposits as at October 31, 2003 compared with 80% as at October 31, 2002.

Deposits from businesses, banks and government-related entities decreased slightly to $2.8 billion as at October 31, 2003, compared to $3.0 billion as at October 31, 2002. The decrease essentially results from the sale of the Ontario and Western Canada branches.

TABLE 11

Deposits

As at October 31, in millions of dollars	2003	2002	2001	Variation 03/02
Personal				
Notice and demand	**$ 1,808**	$ 1,985	$ 1,701	**(9)%**
Fixed date	**8,701**	10,023	9,819	**(13)**
Sub-total – personal	**10,509**	12,008	11,520	**(12)**
As a % of total deposits	**79.1%**	80.2%	79.3%	
Business and other				
Notice and demand	**630**	750	618	**(16)**
Fixed date	**2,154**	2,210	2,380	**(3)**
Sub-total – business and other	**2,784**	2,960	2,998	**(6)**
As a % of total deposits	**20.9%**	19.8%	20.7%	
Total – deposits	**$13,293**	$14,968	$14,518	**(11)%**

Capital

Shareholders' equity as at October 31, 2003 was $873.3 million, up $51 million from a year ago. Growth in retained earnings accounted for most of the increase, while marginal changes in common shares and preferred shares offset each other as detailed below. Common shareholders' equity also increased to $673.3 million as at October 31, 2003 from $622.0 million at year-end 2002.

During the year, the Bank issued 26,982 common shares for proceeds of $0.6 million under its stock option plan. As at October 31, 2003, there were 23,435,585 common shares outstanding. Also, in June 2003, the Bank redeemed the remainder of its Cumulative Class A Preferred Shares Series 2 in the amount of $0.4 million.

The capital structure is reviewed periodically to maximise return on investment for the shareholders, while ensuring it meets regulatory requirements.

The Bank's book value per common share increased to $28.73 as at October 31, 2003, from $26.57 a year ago.

Total capital of the Bank, comprised of shareholders' equity, non-controlling interest and debentures, reached $1,315 million as at October 31, 2003, compared with $1,269 million as at October 31, 2002, an increase of $46 million for the year. This results from the increase in retained earnings, less the impact of the share redemption program of B2B Trust, which reduced the non-controlling interest in a subsidiary. The Bank closely monitors its capital base, which represents an essential factor in assessing the strength and security in relation to the risks associated with its activities.

Tables 12 and 13 present the risk-weighted assets and the regulatory capital used to calculate the ratios established by the Bank for International Settlements (BIS).

The BIS Tier I and Total capital ratios increased to 10.2% and 15.2%, respectively, as at October 31, 2003, from 8.8% and 13.5% as at October 31, 2002. As a result of the sale of the Ontario and Western Canada branches and the evolution of the balance sheet, the Bank reduced its risk weighted assets by $866 million during the year. The total asset to BIS capital leverage ratio was 13.1 compared with 15.0 as at October 31, 2002. Common equity to risk-weighted assets ratio was 8.5% as at October 31, 2003, up from 7.2% as at October 31, 2002. Tangible common equity (common equity less goodwill and other intangibles) to risk-weighted assets ratio was 7.8% as at October 31, 2003, up from 6.7% as at October 31, 2002, which denotes the low level of goodwill and other intangibles.

In 2003, the Bank reinforced its capital ratios to record levels. This strength is important to protect the Bank's depositors and creditors from risks inherent in its activities, and allows the Bank to seize attractive business opportunities.

TABLE 12

Risk-weighted assets

As at October 31, in thousands of dollars

		2003		2002	
	BIS weighting factor	**Gross notional amount**	**Risk-weighted amount**	Gross notional amount	Risk-weighted amount
Balance sheet assets					
Cash and due from other financial institutions without interest	0%	**$ 97,882**	**$ –**	$ 166,598	$ –
	20%	**2,119**	**424**	2,128	426
Interest-bearing deposits with other financial institutions	20%	**622,923**	**124,584**	264,972	52,994
Cheques and other items in transit, net	20%	**111,809**	**22,362**	19,973	3,995
Securities issued or guaranteed by Canada or provinces	0%	**2,551,061**	**–**	2,687,440	–
Securities issued or guaranteed by municipal corporations	20%	**33,323**	**6,665**	44,033	8,807
Other securities	100%	**332,111**	**332,111**	240,906	240,906
	20%	**100,101**	**20,020**	59,445	11,889
	0%	**54,280**	**–**	18,233	–
Mortgage loans					
CMHC-insured	0%	**3,031,414**	**–**	4,035,549	–
Other insured (1)	0%	**134,135**	**–**	147,652	–
Other insured (1)	50%	**14,904**	**7,452**	16,406	8,203
Residential four units and less	50%	**1,358,217**	**679,109**	1,547,525	773,763
Residential more than four units	100%	**726,106**	**726,106**	884,681	884,681
Non-residential	100%	**691,492**	**691,492**	928,400	928,400
Other loans and customers' liability under acceptances (2)	0%	**1,246,826**	**–**	1,293,094	–
	20%	**198**	**40**	1,937	387
	100%	**4,947,643**	**4,947,643**	5,468,809	5,468,809
Other assets	100%	**596,122**	**596,122**	689,866	689,866
Goodwill and other	0%	**85,102**	**–**	77,969	–
General allowances			**72,954**		81,170
Total – balance sheet assets		**$16,737,768**	**8,227,084**	$18,595,616	9,154,296
Off-balance sheet items					
Derivative financial instruments			**60,293**		49,540
Credit-related commitments			**123,165**		72,692
Total – risk-weighted assets – BIS			**$8,410,542**		$9,276,528

(1) Less the guarantee-related adjustment.
(2) Including assets purchased under reverse repurchase agreements.

TABLE 13

Regulatory capital – BIS

As at October 31, in millions of dollars	2003	2002	2001	Variation 03/02
Tier I capital				
Common shares	**$ 246.8**	$ 246.2	$ 234.2	**–%**
Retained earnings	**426.5**	375.8	385.1	**13**
Non-cumulative preferred shares	**200.0**	200.0	160.0	**–**
Non-controlling Tier I interests in subsidiaries	**41.8**	52.3	46.6	**(20)**
Less goodwill	**(54.0)**	(54.0)	(62.0)	**–**
Total – Tier I capital (A)	**861.1**	820.3	763.9	**5**
Tier II capital				
Permanent preferred shares	**–**	0.4	0.4	**(100)**
Subordinated debentures [(1)]	**400.0**	400.0	380.5	**–**
General allowances	**73.0**	81.2	82.7	**(10)**
Non-controlling interest in subsidiaries (hybrid capital instruments)	**–**	1.4	1.4	**(100)**
Total – Tier II capital	**473.0**	483.0	465.0	**(2)**
Investment in non-consolidated corporations, securitizations and other	**(54.2)**	(53.9)	(58.7)	**1**
Regulatory capital – BIS (B)	**$1,279.9**	$1,249.4	$1,170.2	**2%**
Total risk-weighted assets – BIS (Table 12) (C)	**$8,410.5**	$9,276.5	$9,444.3	
Tier I BIS capital ratio (A/C)	**10.2%**	8.8%	8.1%	
Total BIS capital ratio (B/C)	**15.2%**	13.5%	12.4%	
Financial leverage	**13.1x**	15.0x	15.2x	
Common equity as a percentage of risk-weighted assets – BIS	**8.5%**	7.2%	7.0%	
Tangible common equity as a percentage of risk-weighted assets	**7.8%**	6.7%	6.3%	

(1) Debentures are amortized on a straight-line basis over a five-year period prior to maturity.

Dividends

Shareholders have benefited from our long history of uninterrupted dividend payments. With a strong commitment to shareholder value, the Board of Directors approved an increase of the common share dividend payout ratio to a range of 40% to 50% of earnings. The Board of Directors' intention is to maintain the dividend on common shares at its current level of $0.29 per share per quarter provided financial targets, as detailed in the Performance and financial objectives section of this Annual Report, are met and strong capital ratios can be maintained.

During the year, the Bank declared dividends of $0.29 per common share in each quarter, for a total of $1.16 per common share or $27.2 million, up from $26.9 million in 2002. The difference relates to the full-year impact of shares issued in 2002 and the issuance of shares during 2003. Dividends on preferred shares, including applicable income taxes, amounted to $13.9 million, compared to $15.1 million in 2002, although the dividends paid remained unchanged. The reduction is mainly attributable to the increase of income tax savings related to tax payable on dividends.

Credit ratings

The following table provides information on the Bank's credit ratings.

On December 15, 2003, Dominion Bond Rating Service (DBRS) reduced credit ratings related to long-term instruments, but maintained ratings on short-term instruments. On October 7, 2003, Standard & Poor's announced that it had downgraded certain ratings of the Bank but revised outlooks from negative to stable. These changes reflect the lower profitability compared to prior years and other Canadian banks. However, the sound financial position of the Bank helped maintained favourable ratings, mainly as it regards to short-term instruments. Therefore, these changes in outlook are not expected to have a significant impact on liquidity and funding costs. These ratings will be reviewed in light of the future results of the Bank and its ability to implement its business plan.

TABLE 14

Credit ratings

	DBRS	Standard & Poor's
Deposits and senior debt	BBB (high)	BBB+
Short-term instruments	R-1 (low)	A-2 (A-1 low, Canadian national scale)
Subordinated debentures	BBB	BBB
Preferred shares	Pfd-3(high)n	BBB– (P-2 low, Canadian national scale)

SEGMENTED RESULTS BY LINE OF BUSINESS

The Bank has four lines of business: Retail Financial Services, Commercial Financial Services, B2B Trust and Wealth Management and Brokerage.

For the year 2003, net income contributions, excluding the other segment, were 30.6% from Retail Financial Services, 33.4% from Commercial Financial Services, 20.1% from B2B Trust and 15.9% from Wealth Management and Brokerage, compared to 81.2%, (12.9)%, 29.9% and 1.8% respectively in 2002. The 2003 lines of business net income contributions as shown in Table 15, when compared with 2002, were affected by the additional $10 million ($70 million in 2002) provisions for credit losses recorded in Commercial Financial Services. Other special items were not attributed to lines of business.

TABLE 15

Segmented results

For the years ended October 31, as a percentage	2003			2002		
	Total revenue	**Net income**	**Efficiency ratio**	Total revenue	Net income	Efficiency ratio
Retail Financial Services	**66.5%**	**30.6%**	**84.7%**	65.9%	81.2%	75.6%
Commercial Financial Services	**16.7%**	**33.4%**	**37.5%**	18.2%	(12.9)%	34.2%
B2B Trust	**11.2%**	**20.1%**	**60.2%**	12.0%	29.9%	51.4%
Wealth Management and Brokerage	**5.6%**	**15.9%**	**62.6%**	3.9%	1.8%	93.2%

Retail financial services

Net income from Retail Financial Services decreased to $16.8 million in 2003 from $41.6 million in 2002. The 2003 net income was negatively impacted by a decrease in net interest margins, arising mainly from more aggressive pricing of loans and to a lesser extent deposits, which lead to thinner margins. The decrease in Ontario and Western Canada mortgage loan portfolios has also negatively impacted net interest margins.

The efficiency ratio deteriorated to 84.7% in 2003, compared with 75.6% the previous year. This resulted from a 7% reduction in net interest margins, compared to 2002, explained by intense rate competition in Canada as other banks decided to focus on retail services, and 5% decrease in other revenues, along with a 5% increase in operating expenses, mainly compensation costs, including pension costs, and rent expenses.

The Retail Financial Services line of business accounts for more than 50% of total revenues. Important efforts have been made to ensure it increases its contribution to earnings and generates growth for the Bank. The *Entrepreneurship* project, which started a year ago as a pilot test in 18 branches, was a major initiative undertaken to improve results. The *Entrepreneurship* pilot project has definitively boosted the motivation of the staff, improved customer relations and satisfaction and has fuelled growth. Furthermore, the launch of the "Simplified Mortgage," aimed at streamlining the product offering was another initiative to differentiate the Bank with user friendly products. In the second half of the year, the Bank also reviewed its pricing and commissioning strategy for point-of-sale financing to optimise the return of this line of business. All these projects should contribute positively to results in 2004.

Beginning in 2003, Retail Financial Services managed all indirect retail business of the Bank, including point-of-sale financing, agent deposits and broker mortgages across Canada. The 2002 comparative figures have been reclassified to conform to the current year presentation.

TABLE 16

Retail Financial Services

For the years ended October 31, in millions of dollars	**2003**	2002
Net interest income	**$274.2**	$295.0
Other income	**95.2**	100.3
Total revenue	**369.4**	395.3
Provision for credit losses	**28.8**	27.6
Non-interest expenses	**312.9**	298.8
Income before income taxes	**27.7**	68.9
Income taxes	**10.9**	27.3
Net income	**$ 16.8**	$ 41.6

Business Plan highlights

The recent sale of the Ontario and Western Canada branches will allow the Bank to focus its direct Retail Financial Services line of business in Quebec, while maintaining its presence throughout Canada via its indirect retail business. The contribution to net income of the Ontario and Western Canada branches was approximately $26.3 million on a pre-tax basis ($17.1 million after tax) for 2003, including expenses of $12.2 million which cannot be reduced immediately.

Following the analysis of operations which led to the repositioning plan, strategies were developed to increase revenues in the remaining line of business to compensate for this lost revenue stream. The principal strategies are detailed in "Our new business plan" section and relate to the following concepts:

- Introduce the new Laurentian Bank "Signature" and optimize the branch network;
- Extend the *Entrepreneurship* project;
- Develop a "Retailer Approach" to client servicing; and
- Enhance the multi-channel strategy across Canada.

Commercial Financial Services

Commercial Financial Services reported net income in 2003 of $18.3 million, compared with a net loss of $6.6 million in 2002, and the efficiency ratio was 37.5% in 2003 versus 34.2% in 2002. The results for 2003 were impacted by the $10.0 million Air Canada loan loss and a $5.8 million loan loss on a single exposure in the manufacturing sector, while 2002 results were affected by the additional $70.0 million provision for loan losses related to the Bank's exposure to Teleglobe and other commercial loans. Other revenues declined from $41.5 million in 2002 to $29.8 million in 2003, as a result of the repositioning which reduced the level of new business and risk-weighted assets as well as related lending fees.

Commercial loans and bankers' acceptances totalled $1,807 million on October 31, 2003, compared with $2,205 million at the 2002 year-end, for a decrease of $398 million during the period. Following the significant provisions for loan losses recorded in 2002, Commercial Financial Services initiated a repositioning plan that included the reduction of credit risk exposure. In May 2002, there were 20 loans in excess of $20 million, while at year-end 2003, only 7 remained. The Bank will aim to increase the commercial loan portfolio's size with high quality loans over the coming years.

To assist Management with credit reviews and loan approvals, the Bank has developed its risk adjusted return on capital system. New loans are now approved based on this new model to optimize pricing and improve results.

Commercial mortgages are an important source of business for the Bank. The fierce rate competition for term lending has forced the Bank to rely mainly on shorter term real estate project financing during the year. The reduction in term lending volumes has lowered Commercial Financial Services contribution to results in 2003. However, new loan commitments, mainly construction lending, at year-end exceeded $350 million, which confirms the Bank's strong position in this market.

TABLE 17

Commercial Financial Services

For the years ended October 31, in millions of dollars	2003	2002
Net interest income	**$62.8**	$ 67.4
Other income	**29.8**	41.5
Total revenue	**92.6**	108.9
Provision for credit losses	**27.5**	82.7
Non-interest expenses	**34.8**	37.3
Income (loss) before income taxes	**30.3**	(11.1)
Income taxes (recovery)	**12.0**	(4.5)
Net income (loss)	**$18.3**	$ (6.6)

Business Plan highlights

Commercial Financial Services' commitment to relationship banking is its key strength. Commercial Financial Services will deploy a multi-pronged strategy based on relationship banking:

- Continue the deployment of a more personalized approach to meeting client needs;
- Significantly increase the volume of high quality commercial loans over the coming years;
- Build on reputation as a prime construction lender to grow the real estate loan portfolio in and outside Quebec;
- Better serve the small business banking market through an internal reorganization; and
- Become a recognized agricultural lender in Quebec.

B2B Trust

B2B Trust is a federally chartered regulated financial institution and a 77.3% (74.3% in 2002) owned subsidiary of the Bank that supplies generic and complementary banking and financial products to independent financial advisors, non-bank financial institutions and retailers across Canada.

The contribution to net income of B2B Trust, after the impact of income attributable to non-controlling interest, decreased to $11.0 million in 2003 from $15.3 million in 2002. The change in B2B Trust's profitability between 2002 and 2003 is mainly attributable to the following factors:

- Total revenue was $62.5 million in 2003, compared with $71.8 million in 2002, a decrease of $9.3 million. Net interest income decreased by $8.1 million to $46.8 million in 2003 from $54.9 million in 2002. The net interest margin decreased to 1.77% in 2003, compared with 2.16% in 2002. This decline in interest income results mainly from lower volumes of investment loans and residential mortgages, as well as growth in high-interest deposits, partially offset by an increase in the lines of credit portfolios.
- The provision for loan losses was $1.7 million in 2003, compared with $0.8 million in 2002.
- Non-interest expenses remained stable at $37.6 million, compared to $36.9 million in 2002.
- The efficiency ratio increased to 60.2% in 2003 compared with 51.4% in 2002, essentially as a result of lower revenues.

Growth in the investment loans is mainly tied to a successful RSP season, and strong equity markets. B2B Trust is expecting these lending products to resume growth in fiscal 2004 as equity markets resume their historical pattern of outperforming fixed income markets, and mutual fund flows turn positive heading into the 2004 RSP season. B2B Trust is currently anticipating internal growth from the lines of credit portfolio as new credit lines are initiated, and existing approved credit facilities are taken advantage of by customers. Growth over the past two years has primarily been due to asset acquisitions and marketing agreements signed with third parties.

TABLE 18

B2B Trust

For the years ended October 31, in millions of dollars	2003	2002
Net interest income	**$46.8**	$54.9
Other income	**15.7**	16.9
Total revenue	**62.5**	71.8
Provision for credit losses	**1.7**	0.8
Non-interest expenses	**37.6**	36.9
Income before income taxes and non-controlling interest in net income of a subsidiary	**23.2**	34.1
Income taxes	**8.6**	13.5
Non-controlling interest in net income of a subsidiary	**3.6**	5.3
Net income	**$11.0**	$15.3

Business Plan highlights

B2B Trust has adjusted its business model to concentrate on delivering more credit-related products. Its future growth will rely on these two axes:

- Enlarge the investment loan offering in terms of product design, delivery channels and markets reached to become progressively less dependent on the mutual fund lending business; and
- Grow the consumer lending business through traditional channels and large scale retailers.

Wealth Management and Brokerage

Wealth Management and Brokerage reported net income of $8.7 million in 2003 compared with net income of $0.9 million in 2002. The sale of the TSX Group Inc. shares in the first quarter of 2003 resulted in an after-tax gain of $6.7 million. BLC-Edmond de Rothschild Asset Management (BLC-EdR) and Laurentian Bank Securities (LBS) both slightly improved their core results in 2003.

BLC-EdR manages total assets of $1.6 billion in its retail mutual fund and private and institutional money management divisions, compared to $1.2 billion of total assets at year-end in 2002. Customers of the Bank and BLC-EdR have access to a full line of funds under the R Funds banner.

LBS has a leading fixed-income trading and origination franchise along with retail brokerage activities. LBS managed total assets of $2.7 billion as at October 31, 2003, including its own assets of $1.3 billion and its customers' portfolios of $1.4 billion. At the 2002 year-end, LBS managed total assets of $3.3 billion, including its own assets of $2.0 billion and its customers' portfolios of $1.3 billion.

TABLE 19

Wealth Management and Brokerage

For the years ended October 31, in millions of dollars	2003	2002
Net interest income	**$ 1.3**	$ 0.2
Other income	**29.7**	23.1
Total revenue	**31.0**	23.3
Non-interest expenses	**19.4**	21.7
Income before income taxes	**11.6**	1.6
Income taxes	**2.9**	0.7
Net income	**$ 8.7**	$ 0.9

Business Plan highlights

Wealth Management and Brokerage will deploy a multi-pronged strategy for growth:

- Leverage current activities to generate internal growth in mutual funds, as well as in institutional and private portfolio management;
- Continue to grow corporate finance and institutional activities;
- Grow retail brokerage through internal referrals and by increasing the sales team; and
- Launch a transactional Internet site for retail brokerage.

Other sectors

The net contribution of other activities amounted to $37.0 million in 2003, compared with a loss of $7.0 million in 2002. Excluding the after-tax gain on the sale of the Ontario and Western Canada branches of $54.9 million and the after-tax restructuring charge of $12.8 million, the net loss for the year is $5.1 million. Other activities consist mainly in treasury and securitization activities, and include other activities that are not attributable to the above-mentioned segments.

Integrated risk management framework

The Bank has adopted an Integrated Risk Management Framework (the Framework) that constitutes one of the main risk management measures that enable the Directors to fulfil their obligations regarding evaluation of the risks the Bank faces.

Objectives of the framework

- To create a risk management culture;
- To ensure that risk tolerance is consistent with the strategy and objectives of the Bank and that the Bank's resources, technology and processes are aligned to meet its objectives;
- To identify, understand and evaluate, on an ongoing basis, the major risks that the Bank faces;
- To establish measures that allow optimization of the risk/return ratio;
- To establish sound and prudent risk limits and risk management policies;
- To establish and apply efficient internal controls;
- To establish roles and responsibilities of Management regarding risk management; and
- To ensure that the risk management process abides by best practices in the industry.

To meet these objectives, the Framework is divided into two distinct sections: control and corporate governance. The Control aspect rests on five functions: human resources, strategic planning, financial integrity, risk management and compliance. The responsibility for each function is delegated to members of Management and is supervised by the committees of the Board of Directors of the Bank. The Board of Directors ensures that the Bank has an effective strategic management process that takes risks into account. Page 16 contains a detailed description of each of the committees.

Integrated risk management

The Integrated Risk Management function is an independent unit that overviews management of credit, market (including interest rate risk, foreign exchange risk and liquidity risk), capital and operational risk. In particular, this function:

- Establishes, co-ordinates and updates the Integrated Risk Management framework;
- Establishes and updates a monitoring framework for credit, market and operational risk that allows monitoring of and compliance with corporate policies related to risk management;
- Establishes and updates the information security framework and its business continuity plan;
- Identifies and summarizes all risks and controls through a risk matrix;
- Integrates credit, market and operational risk by the economic capital measure in a (RAROC) framework; and
- Validates models that are used to measure risks at the Bank.

This function periodically reports to the Risk Management Committee of Management and the Board to enable the committees to evaluate whether the Bank has adopted a satisfactory and effective risk management process.

Risk management structure

Management has put in place a risk management structure that was approved by the Board of Directors. The Management Committee has established that credit risk, market risk (including interest rate, foreign exchange and liquidity risk), liquidity risk, capital management risk, structural risk, operational risk and regulatory risk are quite controllable and measurable and can be more formally supervised. Consequently, these risks are subject to particular policies and are monitored by Management's Risk Management Committee, as explained below.

	Regulation ↕		**Regulation ↕**
	Control environment		**Corporate governance**
	Functions	**Coordinators**	
Managers ↔	Human resources	Human resources Officer	Human resources and Corporate governance Committee
	Strategic planning	Chief Executive Officer / Chief Financial Officer	Board of Directors
	Financial integrity	Chief Financial Officer	Audit Committee
	Risk management	Chief Risk Officer	Risk Management Committee
	Compliance	Chief Compliance Officer	Audit Committee
	Internal audit ↕		

1. CREDIT RISK MANAGEMENT

Credit risk is the risk of a financial loss occurring because of the inability or refusal of a counterparty to fully honour the contractual or financial obligations of a balance sheet or off-balance sheet financial instrument.

Credit risk management is independent of operations, thus protecting the independence and integrity of risk evaluation. The Internal Credit Committee is responsible for the operational supervision of overall credit risk management. A credit risk management report is presented on a quarterly basis to the Board's Risk Management Committee. The credit risk policies adopted by the Bank provide for appropriate risk assessment and the setting of lending rates in consequence. These policies cover the approval of credit applications by the line of authority concerned, attribution of risk ratings, management of impaired loans, establishment of general and specific provisions, and pricing based on risk.

In 2002, the Bank set a limit of $20 million for each new loan commitment. More restrictive sublimits are foreseen for some economic sectors. Commitment and sector ceilings have also been established. Fiscal 2003 was a challenging year for syndicated loans, the Bank upheld its efforts to reduce its commitments in loans greater than $20 million, which represented only 4 files at October 31, 2003, compared with 17 at October 31, 2002. No loan exceeded $25 million as at October 31, 2003.

The authorization process for counterparties and loans is highly centralized. The Bank uses state-of-the-art software systems to support the decision-making process with regard to applications for personal consumer credit, residential mortgage loans and credit cards. The Bank ensures a rigorous and systematic follow-up of its loan portfolio both in terms of quality and quantity by applying different mechanisms and policies; this includes systematically reviewing various categories of files, reviewing risk rating updating systems and analysing pricing. Each month, Bank Management reviews impaired loans and follows up on loans where payment is past due by 90 days or more. As well, the collection process is centralized and is based on specialized expertise.

During the 2003 fiscal year, the Bank reviewed its internal risk rating system for commercial borrowers; it notably increased the number of grades from 9 to 18 and added a facility rating. This improvement is compatible with the requirements for the adoption of internal methods of calculation of regulatory capital under the Basel II Accord.

2. MARKET RISK MANAGEMENT

Policies and standards

Market risk is the risk of financial loss due to movements in interest rates and foreign exchange rates, as well as bond and equity prices for balance sheet and off-balance sheet financial instruments. This risk arises from the Bank's financing, investment and trading activities.

Market risks are inherent in the operations of an institution that trades financial instruments whose value is determined according to market rates or prices. These instruments consist of stocks, bonds, options and spot transactions, futures transactions and other transactions with derivatives. Efficient management of market risk implies management of the risk-return ratio and market commitments, in light of diverse factors.

The Bank establishes policies and ceilings that enable it to oversee and limit exposure to market risks arising from its trading and asset and liability management activities. The policies and limits established reflect the line of conduct of the Bank and its subsidiaries regarding management of various risks associated with its Treasury activities. The management strategy retained, the principles adopted and objectives set reflect the degree of risk that the Bank and its subsidiaries are prepared to assume in relation to the anticipated results. Detailed reports on risk and monitoring of the limits are produced daily.

The limit monitoring reports are presented:

- Daily to risk portfolio managers;
- Monthly to the asset and liability management committee; and
- Quarterly to the Risk Management Committees of Management and of the Board.

Management of market risk encompasses management of interest rate risk, foreign exchange risk and liquidity risk.

Interest rate risk

Interest rate risk is the potential negative impact of interest rate movements on the Bank's results and economic value.

Apart from analysing the trading portfolio, the section covering structural risk describes the global management of interest rate risk as performed by the Bank.

Foreign exchange risk

Foreign exchange risk is linked to the possible negative impact of exchange rate variations on the Bank's results and economic value.

The Bank's foreign exchange position is attributable to products and services that the Bank offers its clients in currencies other than Canadian dollars. Foreign exchange positions may also result from arbitrage activities. Risk control therefore implies that non-covered positions be maintained and managed to take advantage of short-term market fluctuations, hence the setting of global limits, reviewed on an annual basis, specifying the maximum risk the Bank is ready to assume, considering its activities.

Liquidity risk

Liquidity risk is the risk of loss if the Bank does not have sufficient cash resources, when required, to meet all its cash flow obligations, whether for balance sheet or off-balance sheet instruments.

Liquidity management provides the Bank and its subsidiaries with the assurance that sufficient funds will be available to meet its commitments. Efficient liquidity management is essential to maintaining market confidence and protecting the Bank's capital. It is an integral part of asset and liability management. The Bank monitors cash resources daily and applies a prudent liquidity management policy that enables it to meet its cash requirements at all times. It pays particular attention to deposit and loan maturities, along with funding availability and demand, while abiding by the legislative imperatives governing it and its subsidiaries. The Bank strives to maintain a stable volume of base deposits originating from its retail and deposit brokerage clientele, along with the diversification of financing sources (by client, deposit type, market and maturity dates) by means of numerous controls and limits. The use of capital markets, either through the issuance of capital stock or short-term debt instruments, is a component of financing. Securitization of assets offers an additional source of financing through the sale of assets. Moreover, the Bank constantly monitors its operating requirements. In particular, it evaluates and anticipates its commitments, and ensures that a minimum amount of quality liquid assets are immediately available to respond to any eventuality. Scenario-based contingency plans are put in place to provide measures that enable the Bank to fulfil its obligations in the event of a high demand for liquid assets.

Methods of evaluating and controlling market risks (interest rate and foreign exchange rate risk)

The evaluation of market risks at the Laurentian Bank is underpinned by a combination of two groups of measures that provides a framework:

- Value at risk (VAR) and the application of shock scenarios; and
- "Nominal" limits (in various measures of sensitivity), that allow management of the risks that are not captured by the VAR measures and scenarios.

Value at risk

The techniques of analysis, quantification and management of financial market risks have evolved at an extremely rapid pace in recent years. In addition, the Bank has implemented a market risk management and monitoring structure that entails the use of VAR methodology for all of its treasury portfolios.

The method retained, which implicitly considers correlations between the various markets, is that of historical simulations. It rests on the following principles:

- Production of a history of market parameters that are representative of the risks incurred by the Bank;
- Determination of 300 scenarios that correspond to variations observed in one day;
- Distortion of the parameters of the day according to the 300 scenarios; and
- Re-evaluation of the positions of the day based on these 300 distortions of market conditions.

The value at risk of 99% corresponds to the greatest risk obtained after elimination of 1% of the most unfavourable observations: out of 300 observations, it reflects the third largest risk noted.

Global value at risk is calculated for all financial market activities. VAR is also calculated per type of portfolio and type of product. In parallel with the VAR model, test scenarios are calculated according to products and determined based on historical data analysis.

3. STRUCTURAL RISK MANAGEMENT

Structural risk is the potential negative impact of interest rate movements on the Bank's results and economic value. This risk is mainly attributable to differences in maturities or re-evaluation dates of balance sheet and off-balance sheet items along with the options embedded in certain banking products, notably early redemption clauses and mortgage commitments.

Management of structural risk requires rigorous monitoring of four distinct portfolio groups:

- Banking activities of the Bank's clientele, which are affected by customer choices, product availability and term-dependent pricing policies;
- Investment activities, comprised of marketable securities and institutional funding composed of primary and secondary liquidity portfolios and the positioning portfolio;
- Securities trading portfolios, that are marked-to-market on a daily basis in line with rate movements; and
- Hedging transactions that help the Bank control overall interest rate risk within stringent internal limits.

Both the dynamic management and disciplined control of structural risk are intended to maximize the Bank's profitability and preserve the economic value of common shareholders' equity. To attain this objective, various treasury and derivative instruments, mainly interest rate swaps, futures and options are used to modify the interest rate characteristics of the underlying instruments on the balance sheet and to cover the risk inherent in options embedded in loan and deposit products.

Structural risk is managed by the Asset and Liability Management Committee in accordance with the structural risk management policy established by the Board of Directors. This policy defines relative ceilings of economic value and interest income risk. Risk ceilings are calculated by simulating the impact of immediate and sustained parallel movements of 100 basis points of rates for all maturities.

Economic value risk measures the net negative impact on the present value of balance sheet and off-balance sheet assets and liabilities.

Interest income risk measures the negative impact on net interest income from interest rate movements over the next twelve months. Portfolio positions are reviewed weekly by the Asset and Liability Management Committee, which is in charge of establishing the Bank's positioning with regard to anticipated interest rate movements and recommending hedging of all undesirable or unforeseen interest rate risk. In addition, risk monitoring reports are presented quarterly to the risk management committees of management and of the Board of Directors. Structural risk management ensues from a weekly gap report. The Bank's interest rate gap position at October 31, 2003 appears in Note 21 of the Consolidated Financial Statements. The net sensitivity gap for one year or less is $0.1 billion, or 0.6% of total consolidated assets. To ensure sound management of structural risk, Management also conducts simulation analysis of the variation in net income and the economic value of common shareholders' equity based on a repricing spread report and various interest rate scenarios over a 24-month period. One of the main simulation exercises consists of subjecting the Bank's balance sheet to a sudden sustained 1% increase in interest rates. For example, at October 31, 2003, for all portfolios, this 1% rate increase would have triggered an increase of $2.7 million in net income before taxes over the next 12 months and would have had a $39.8 million impact on the value of common shareholders' equity. These results reflect management's efforts to take advantage of short-term and long-term interest rate movements, while maintaining the sensitivity to these fluctuations well within the limits set by the Board.

4. CAPITAL MANAGEMENT RISK

Capital management risk is the risk of the possible negative impact if the Bank cannot maintain an optimal level of capital to support its activities.

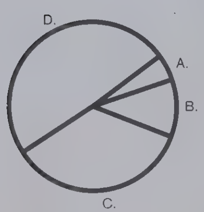
The capital of the Bank is comprised of common shareholders' equity, retained earnings, preferred shares, subordinated debentures and a non-controlling interest in a subsidiary. The Bank's capital represents an essential factor in assessing the Bank's stability and security in relation to the risks associated with its activities. Capital management contributes to the Bank's profitability, as capital is allocated to key sectors for which precise profitability objectives and criteria have been established. The Bank's aim is to maintain an optimal level of capital to support its activities while generating an attractive and competitive return for its shareholders, in relation to industry standards and its specific risk profile. The Bank's policy is to maintain its statutory capital ratios at a level comparable to that of the industry, consistent with regulatory requirements as defined by the Office of the Superintendent of Financial Institutions of Canada (OSFI). Capital ratio monitoring reports are presented, every quarter, to the members of the Risk Management Committee of Management and of the Board.

Economic capital

The Bank continues to improve its economic capital model. This methodology allows the Bank to group and manage the various risk components to calculate the maximum potential loss that the Bank or a sector may sustain with a degree of predetermined confidence, for a predefined period of time. This process is intended to define the risk element in the risk-return profile, which contributes to evaluating the economic profit and the increase in the value of shareholders' equity. The lines of development are intended to improve risk coverage and ensure permanent validation of the parameters of the model.

The chart below shows the daily distribution of economic capital by risk type.

Economic Capital by Risk Type



A. Market risk **5%**

B. Structural risk **12%**

C. Residual risk (including operational risk) **35%**

D. Credit risk **48%**

New Basel Accord

The Basel Committee on Banking Supervision is currently formulating a new accord (the New Basel Accord), that:

- Is supported by three pillars instead of one:
  1. minimum requirements;
  2. a monitoring framework; and
  3. financial disclosure;
- Will take into account the real risks of the Bank to a greater extent than the initial accord did; and
- Will allow a choice among three risk assessment methods of increasing sensitivity, to measure credit risk and operational risk.

The Bank supports this evolution and is collaborating closely with the regulatory bodies to fine-tune aspects of the New Basel Accord.

During the 2003 fiscal year, the Bank participated in the third quantitative survey (QIS3) of the Basel Committee, which enabled it to determine the calculation method of regulatory capital that was most advantageous for its shareholders. In view of the implementation of the New Basel Accord, scheduled for November 2006, the Bank has formed a task force that will report on the progress of the project, every quarter, to the members of the Risk Management Committee of Management and of the Board.

5. OPERATIONAL RISK MANAGEMENT

Operational risk results from insufficiency or failure attributable to procedures, personnel, internal systems or external events.

The operational risk management policy amended in January 2003 describes the operational risk management framework and defines the roles and responsibilities of various stakeholders. Specifically, managers are responsible for daily management of operational risk, whereas the operational risk management department strives to develop appropriate policies, gathers data on operational losses, assists managers in identifying operational risks, evaluates the frequency and potential impact of these risks, maintains an operational risk management framework that includes a management framework for information and security, coordinates the business continuity plan and prepares quarterly progress reports for the operational risk management committee and the Risk Management Committee of Management and the Board of Directors. To this effect, the following policies have been adopted: the outsourcing risk management policy, the policy on information security management, the policy on protection of personal information, the policy on recycling of the proceeds of crime and the financing of terrorism activities, and the policy on professional liability risk management.

In addition, the operational risk management department created a database of operational loss events and a self-evaluation program for risks and controls. All of the Bank's operations are now grouped into broad business processes, and each process is covered in an intersectoral workshop, during which operational risks related to the process are evaluated in terms of frequency and impact, and appropriate controls are identified. This program is intended to establish the dashboard for operational risks and reflect the efficiency of controls in place.

6. REGULATORY RISK MANAGEMENT

Regulatory risk results from risk related to failure by the Bank to comply with prevailing legislation, regulations, by-laws, established practices or accepted ethical standards. The compliance policy describes the compliance program and defines the roles and responsibilities of the various stakeholders. The compliance program includes all of the regulatory requirements that have a major impact on the Bank's operations, and that are contained in the sectoral compliance programs, along with mandates, timetables and compliance reports.

Compliance reports are submitted to the chairman of the board, the Risk Management Committee of Management and the Audit Committee of the Board.

Statistical review – Consolidated balance sheet

As at October 31

In thousands of dollars	2003	2002	2001	2000	1999	Average annual variation 03/99
ASSETS						
Cash resources						
Cash and due from other financial institutions without interest	$ 100,001	$ 168,726	$ 82,231	$ 83,130	$ 92,083	2%
Interest-bearing deposits with other financial institutions	622,923	264,972	93,679	167,904	21,005	133
Cheques and other items in transit, net	111,809	19,973	8,437	29,177	–	n/a
	834,733	453,671	184,347	280,211	113,088	65
Securities						
Issued or guaranteed by Canada	1,497,689	1,584,820	1,432,946	822,894	996,776	11
Issued or guaranteed by provinces and municipal corporations	1,025,828	1,114,427	650,685	428,946	802,627	6
Other securities	547,359	350,810	237,630	136,620	136,272	42
	3,070,876	3,050,057	2,321,261	1,388,460	1,935,675	12
Assets purchased under reverse repurchase agreements	882,036	869,830	649,671	638,400	917,710	(1)
Loans						
Personal	3,646,070	3,865,455	3,532,655	2,863,333	2,418,210	11
Residential and commercial mortgages	5,979,229	7,601,671	7,880,870	6,977,955	6,164,441	(1)
Commercial and other	1,571,491	1,872,901	2,159,752	1,783,173	1,466,230	2
	11,196,790	13,340,027	13,573,277	11,624,461	10,048,881	3
Allowance for loan losses	(163,177)	(217,881)	(133,512)	(115,661)	(106,019)	11
	11,033,613	13,122,146	13,439,765	11,508,800	9,942,862	3
Other						
Customers' liability under acceptances	235,286	332,077	336,292	244,586	116,248	19
Capital assets	114,479	160,597	178,766	164,914	157,104	(8)
Other assets	566,745	607,238	585,722	515,947	461,127	5
	916,510	1,099,912	1,100,780	925,447	734,479	6
	$16,737,768	$18,595,616	$17,695,824	$14,741,318	$13,643,814	5%
LIABILITIES AND SHAREHOLDERS' EQUITY						
Deposits						
Personal	$10,508,592	$12,007,957	$11,519,743	$10,202,957	$ 8,021,908	7%
Business and other	2,784,357	2,960,317	2,998,294	2,036,094	2,447,629	3
	13,292,949	14,968,274	14,518,037	12,239,051	10,469,537	6
Other						
Cheques and other items in transit, net	–	–	–	–	7,587	(100)
Obligations related to assets sold short or under repurchase agreements	1,142,909	1,308,882	877,158	619,264	1,698,612	(9)
Acceptances	235,286	332,077	336,292	244,586	116,248	19
Other liabilities	751,484	716,907	741,921	629,412	453,841	13
	2,129,679	2,357,866	1,955,371	1,493,262	2,276,288	(2)
Subordinated debentures	400,000	400,000	400,000	346,833	284,600	9
Non-controlling interest in a subsidiary	41,827	47,106	42,683	–	–	n/a
Shareholders' equity						
Capital stock						
Preferred shares	200,000	200,400	160,400	160,400	160,400	6
Common shares	246,813	246,230	234,240	167,042	167,042	10
Retained earnings	426,500	375,740	385,093	334,730	285,947	11
	873,313	822,370	779,733	662,172	613,389	9
	$16,737,768	$18,595,616	$17,695,824	$14,741,318	$13,643,814	5%

Statistical review – Consolidated statement of income

For the years ended October 31

In thousands of dollars, except per share amounts	2003	2002	2001	2000	1999	Average annual variation 03/99
Loans	$ 870,519	$ 887,268	$ 1,005,061	$ 835,759	$ 696,732	6%
Securities	76,502	73,341	66,284	70,181	70,673	2
Deposits with other financial institutions	11,658	5,022	8,243	5,712	7,414	12
Interest income	958,679	965,631	1,079,588	911,652	774,819	5
Deposits and other liabilities	587,711	591,905	680,035	605,281	521,736	3
Subordinated debentures	27,742	27,750	34,395	27,475	22,546	5
Interest expense	615,453	619,655	714,430	632,756	544,282	3
Net interest income	343,226	345,976	365,158	278,896	230,537	10
Provision for credit losses	54,000	111,000	35,000	25,000	18,700	30
	289,226	234,976	330,158	253,896	211,837	8
Other income	286,720	254,443	265,641	211,777	212,734	8
	575,946	489,419	595,799	465,673	424,571	8
Salaries and employee benefits	204,944	198,694	212,878	177,147	162,935	6
Premises and technology	128,982	120,140	115,829	96,641	90,319	9
Other	107,854	88,499	116,736	79,539	91,247	4
Non-interest expenses	441,780	407,333	445,443	353,327	344,501	6
Income before income taxes and non-controlling interest in net income of a subsidiary	134,166	82,086	150,356	112,346	80,070	14
Income taxes	38,659	32,424	57,610	30,686	24,400	12
Income before non-controlling interest in net income of a subsidiary	95,507	49,662	92,746	81,660	55,670	14
Non-controlling interest in net income of a subsidiary	3,640	5,318	2,041	–	–	n/a
Net income	$ 91,867	$ 44,344	$ 90,705	$ 81,660	$ 55,670	13%
Preferred share dividends, including applicable income taxes	$ 13,943	$ 15,058	$ 13,530	$ 13,932	$ 13,386	1%
Net income available to common shareholders	$ 77,924	$ 29,286	$ 77,175	$ 67,728	$ 42,284	17%
Dividends on common shares	$ 27,164	$ 26,854	$ 24,098	$ 18,945	$ 18,540	10%
Average number of common shares outstanding (in thousands)	23,416	23,095	22,710	20,154	20,151	4%
Average number of common shares outstanding after dilution (in thousands)	23,457	23,288	22,896	20,224	20,303	4%
Per common share:						
Net income						
– Basic	$ 3.33	$ 1.27	$ 3.40	$ 3.36	$ 2.10	12%
– Diluted	$ 3.32	$ 1.26	$ 3.37	$ 3.35	$ 2.08	12%
Dividends	$ 1.16	$ 1.16	$ 1.06	$ 0.94	$ 0.92	6%
Book value	$ 28.73	$ 26.57	$ 27.08	$ 24.90	$ 22.48	6%
Return on common shareholders' equity	12.4%	4.8%	13.1%	14.4%	9.6%	
As a percentage of average assets						
Net interest income	1.85%	1.86%	2.13%	1.94%	1.79%	
Provision for credit losses	0.29	0.60	0.20	0.17	0.14	
Other income	1.55	1.37	1.55	1.47	1.65	
Non-interest expenses	2.38	2.19	2.59	2.46	2.67	
Income taxes	0.21	0.17	0.35	0.21	0.20	
Non-controlling interest in net income of a subsidiary	0.02	0.03	0.01	–	–	
Net income	0.50	0.24	0.53	0.57	0.43	
Dividends on preferred shares	0.08	0.08	0.08	0.10	0.10	
Net income available to common shareholders	0.42%	0.16%	0.45%	0.47%	0.33%	
Average assets (in millions of dollars)	$ 18,548	$ 18,570	$ 17,176	$ 14,377	$ 12,914	9%
Number of full-time equivalent employees	3,159	3,730	3,884	3,481	3,236	(1)%
Number of branches	155	214	230	204	203	(7)%
Number of automated banking machines	284	351	360	315	326	(3)%

Quarterly highlights

In thousands of dollars, except per share amounts (unaudited)				2003				2002
				Quarters ended				Quarters ended
	Oct. 31	July 31	April 30	Jan. 31	Oct. 31	July 31	April 30	Jan. 31
Interest income	$ 235,488	$ 247,357	$ 235,753	$ 240,081	$ 237,913	$ 250,373	$ 236,244	$ 241,101
Interest expense	152,409	159,438	151,137	152,469	155,792	160,850	149,425	153,588
Net interest income	83,079	87,919	84,616	87,612	82,121	89,523	86,819	87,513
Provision for credit losses	11,000	16,000	16,000	11,000	11,000	10,000	80,000	10,000
	72,079	71,919	68,616	76,612	71,121	79,523	6,819	77,513
Other income	117,765	55,856	53,089	60,010	53,172	60,662	66,800	73,809
Non-interest expenses	125,839	109,342	102,023	104,576	96,171	101,682	101,637	107,843
Income (loss) before income taxes and non-controlling interest in net income of a subsidiary	64,005	18,433	19,682	32,046	28,122	38,503	(28,018)	43,479
Income taxes (recovery)	12,533	7,281	7,781	11,064	11,108	15,209	(11,069)	17,176
Income (loss) before non-controlling interest in net income of a subsidiary	51,472	11,152	11,901	20,982	17,014	23,294	(16,949)	26,303
Non-controlling interest in net income of a subsidiary	751	893	920	1,076	1,146	1,311	1,422	1,439
Net income (loss)	$ 50,721	$ 10,259	$ 10,981	$ 19,906	$ 15,868	$ 21,983	$ (18,371)	$ 24,864
As a percentage of average assets								
Net interest income	1.79%	1.87%	1.86%	1.88%	1.76%	1.86%	1.88%	1.95%
Provision for credit losses	0.24%	0.34%	0.35%	0.24%	0.24%	0.21%	1.74%	0.22%
Other income	2.53%	1.19%	1.17%	1.29%	1.14%	1.26%	1.45%	1.65%
Non-interest expenses	2.71%	2.32%	2.25%	2.25%	2.06%	2.11%	2.21%	2.41%
Net income (loss)	1.09%	0.22%	0.24%	0.43%	0.34%	0.46%	(0.40)%	0.55%
Net income (loss) available to common shareholders	1.02%	0.14%	0.17%	0.35%	0.26%	0.38%	(0.48)%	0.47%
Average assets (in millions of dollars)	$ 18,446	$ 18,671	$ 18,628	$ 18,449	$ 18,505	$ 19,115	$ 18,897	$ 17,775
Return on common shareholders' equity	29.5%	4.3%	4.9%	10.3%	7.8%	12.0%	(14.4)%	13.5%
Average number of common shares outstanding (in thousands)	23,426	23,413	23,412	23,411	23,376	23,132	22,969	22,898
Average diluted number of common shares outstanding (in thousands)	23,465	23,452	23,453	23,460	23,439	23,289	22,969	23,155
Per common share								
Net income (loss) – basic	$ 2.02	$ 0.29	$ 0.32	$ 0.70	$ 0.52	$ 0.79	$ (0.95)	$ 0.91
Net income (loss) – diluted	$ 2.01	$ 0.29	$ 0.32	$ 0.70	$ 0.52	$ 0.78	$ (0.95)	$ 0.90
Dividends	$ 0.29	$ 0.29	$ 0.29	$ 0.29	$ 0.29	$ 0.29	$ 0.29	$ 0.29
Book value	$ 28.73	$ 27.01	$ 27.01	$ 26.98	$ 26.57	$ 26.36	$ 25.91	$ 27.16
Share price – Close	$ 27.75	$ 26.00	$ 27.00	$ 25.95	$ 28.08	$ 28.80	$ 31.30	$ 36.14
Dividends								
Preferred shares and related taxes	$ 3,466	$ 3,497	$ 3,422	$ 3,558	$ 3,786	$ 3,766	$ 3,540	$ 3,966
Common shares	$ 6,795	$ 6,789	$ 6,790	$ 6,790	$ 6,788	$ 6,768	$ 6,646	$ 6,652
In millions of dollars								
Total assets (end of period)	$16,737.8	$18,609.3	$18,677.2	$18,582.3	$18,595.6	$19,179.0	$19,093.4	$18,013.0
Risk-weighted assets	$ 8,410.5	$ 9,244.5	$ 9,432.2	$ 9,210.2	$ 9,276.5	$ 9,384.6	$ 9,637.8	$ 9,569.8
Tier I capital	$ 861.1	$ 828.5	$ 831.5	$ 830.6	$ 820.3	$ 811.8	$ 788.9	$ 817.8
Total capital	$ 1,279.9	$ 1,256.3	$ 1,256.2	$ 1,239.2	$ 1,249.4	$ 1,244.2	$ 1,215.9	$ 1,243.0
Capital ratios								
Tier I	10.2%	9.0%	8.8%	9.0%	8.8%	8.7%	8.2%	8.6%
Total capital	15.2%	13.6%	13.3%	13.5%	13.5%	13.3%	12.6%	13.0%
Financial leverage	13.1x	14.9x	15.0x	15.1x	15.0x	15.5x	15.8x	14.6x

CONSOLIDATED FINANCIAL STATEMENTS

AS AT OCTOBER 31, 2003 AND 2002

The consolidated financial statements present a recent financial history of the financial condition, results of operations and cash flows of the Laurentian Bank of Canada.
The accompanying notes are an important part of understanding the Bank's performance. They explain how we arrived at the numbers in the consolidated financial statements, describe significant events or changes that affect the numbers, and explain certain items in the consolidated financial statements. They also include details about the financial results that are not shown in the consolidated financial statements.

Management's responsibility for financial information

The consolidated financial statements of Laurentian Bank of Canada were prepared by management which is responsible for the integrity and fairness of the financial information presented. The financial statements were prepared in accordance with Canadian generally accepted accounting principles, including the accounting requirements specified by the Superintendent of Financial Institutions of Canada. The financial statements reflect amounts which must, of necessity, be based on the best estimates and judgement of management with appropriate consideration as to materiality. The financial information presented elsewhere in this annual report is consistent with that in the financial statements.

Management is responsible for ensuring the fairness and integrity of the financial information. It is also responsible for the implementation of the supporting accounting systems. In discharging its responsibilities, management maintains the necessary internal control systems designed to provide assurance that transactions are properly authorized, assets are safeguarded and proper accounting records are held. The controls include quality standards in hiring and training of employees, written policies, authorized limits for managers, procedure manuals, a corporate code of conduct and appropriate management information systems.

The internal control systems are further supported by a compliance function, which ensures that the Bank and its employees comply with all regulatory requirements, as well as by a risk integration function and an operating risk management function that ensures proper risk control, related documentation and the measurement of the financial impact of risks. In addition, the internal auditors periodically evaluate various aspects of the Bank's operations and make recommendations to management for, among other things, improvements to the control systems.

Every year, the Superintendent of Financial Institutions of Canada makes such examinations and inquiries as deemed necessary to satisfy itself that the Bank is in a sound financial position and that it complies with the provisions of the *Bank Act* as well as the Standards of Sound Business and Financial Practices of the Canada Deposit Insurance Corporation.

Ernst & Young LLP, independent auditors, appointed by the shareholders, examine the Bank's consolidated financial statements and their report follows.

The internal auditors, the external auditors and the Superintendent of Financial Institutions of Canada meet periodically with the Audit Committee, in the presence or absence of management, to discuss all aspects of their duties and matters arising therefrom.

The Board of Directors is responsible for reviewing and approving the financial statements and management's discussion and analysis of results of operations and financial condition appearing in the annual report. It oversees the manner in which management discharges its responsibilities for the presentation and preparation of financial statements, maintenance of appropriate internal controls, risk management as well as assessment of significant transactions and related party transactions through its Audit Committee and its Risk Management Committee. Both committees are composed solely of external directors.

Raymond McManus
President and Chief Executive Officer

Robert Cardinal
Senior Executive Vice-President
and Chief Financial Officer

Montréal, Canada
December 2, 2003

Auditors' report to the shareholders of Laurentian Bank of Canada

We have audited the consolidated balance sheet of Laurentian Bank of Canada as at October 31, 2003 and 2002 and the consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of Laurentian Bank of Canada's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at October 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP
Chartered Accountants

Montréal, Canada
December 2, 2003

Consolidated balance sheet

As at October 31

In thousands of dollars	Notes	2003	2002
ASSETS			
Cash resources			
Cash and due from other financial institutions without interest		$ 100,001	$ 168,726
Interest-bearing deposits with other financial institutions		622,923	264,972
Cheques and other items in transit, net		111,809	19,973
		834,733	453,671
Securities	3 and 22		
Investment account		2,064,301	2,084,585
Trading account		1,006,575	965,472
		3,070,876	3,050,057
Assets purchased under reverse repurchase agreements		882,036	869,830
Loans	4 and 5		
Personal		3,646,070	3,865,455
Residential mortgages		5,274,128	6,645,899
Commercial mortgages		705,101	955,772
Commercial and other		1,571,491	1,872,901
		11,196,790	13,340,027
Allowance for loan losses		(163,177)	(217,881)
		11,033,613	13,122,146
Other			
Customers' liability under acceptances		235,286	332,077
Capital assets	6	114,479	160,597
Goodwill	7	54,029	54,029
Other assets	8	512,716	553,209
		916,510	1,099,912
		$16,737,768	$18,595,616
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits	9		
Personal		$10,508,592	$12,007,957
Business and other		2,784,357	2,960,317
		13,292,949	14,968,274
Other			
Obligations related to assets sold short		969,663	861,020
Obligations related to assets sold under repurchase agreements	22	173,246	447,862
Acceptances		235,286	332,077
Other liabilities	10	751,484	716,907
		2,129,679	2,357,866
Subordinated debentures	11	400,000	400,000
Non-controlling interest in a subsidiary	17	41,827	47,106
Shareholders' equity			
Capital stock	12		
Preferred shares		200,000	200,400
Common shares		246,813	246,230
Retained earnings		426,500	375,740
		873,313	822,370
		$16,737,768	$18,595,616

The accompanying notes are an integral part of the consolidated financial statements.

L. Denis Desautels, O.C.
Chairman of the Board

Raymond McManus
President and Chief Executive Officer

Consolidated statement of income

For the years ended October 31

In thousands of dollars, except per share amounts	Notes	2003	2002
Interest income			
Loans		**$870,519**	$887,268
Securities		**76,502**	73,341
Deposits with other financial institutions		**11,658**	5,022
		958,679	965,631
Interest expense			
Deposits and other liabilities		**587,711**	591,905
Subordinated debentures		**27,742**	27,750
		615,453	619,655
Net interest income		**343,226**	345,976
Provision for credit losses	4	**54,000**	111,000
		289,226	234,976
Other income			
Fees and commissions on loans and deposits		**101,452**	112,841
Gain on disposal of branches	2	**69,946**	–
Revenues from treasury and financial market operations		**50,858**	61,867
Commissions from brokerage operations		**16,729**	19,201
Revenues from registered self-directed plans		**12,635**	13,192
Revenues from sale and management of mutual funds		**10,654**	13,884
Insurance revenues		**6,694**	5,280
Securitization revenues	5	**1,048**	16,129
Other		**16,704**	12,049
		286,720	254,443
		575,946	489,419
Non-interest expenses			
Salaries and employee benefits		**204,944**	198,694
Premises and technology		**128,982**	120,140
Restructuring costs	15	**19,725**	(629)
Other		**88,129**	89,128
		441,780	407,333
Income before income taxes and non-controlling interest in net income of a subsidiary		**134,166**	82,086
Income taxes	16	**38,659**	32,424
Income before non-controlling interest in net income of a subsidiary		**95,507**	49,662
Non-controlling interest in net income of a subsidiary	17	**3,640**	5,318
Net income		**$ 91,867**	$ 44,344
Preferred share dividends, including applicable income taxes		**13,943**	15,058
Net income available to common shareholders		**$ 77,924**	$ 29,286
Average number of common shares (in thousands)		**23,416**	23,095
Average number of common shares after dilution (in thousands)		**23,457**	23,288
Net income per common share	18		
Basic		**$ 3.33**	$ 1.27
Diluted		**$ 3.32**	$ 1.26

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated statement of changes in shareholders' equity

For the years ended October 31

In thousands of dollars	Notes	2003	2002
CAPITAL STOCK	12		
Preferred shares			
Balance at beginning of year		**$200,400**	$160,400
Issued during the year		**–**	100,000
Redeemed during the year		**(400)**	(60,000)
Balance at end of year		**$200,000**	$200,400
Common shares			
Balance at beginning of year		**$246,230**	$234,240
Issued during the year		**583**	11,990
Balance at end of year		**$246,813**	$246,230
RETAINED EARNINGS			
Previous balance		**$375,740**	$385,093
Impact of adopting the new accounting policy regarding goodwill, net of applicable income taxes	1 and 7	**–**	(9,670)
Restated balance		**375,740**	375,423
Net income		**91,867**	44,344
Dividends			
Preferred shares, including applicable income taxes		**(13,943)**	(15,058)
Common shares		**(27,164)**	(26,854)
Preferred share issue costs, net of income taxes		**–**	(2,115)
Balance at end of year		**$426,500**	$375,740
TOTAL SHAREHOLDERS' EQUITY		**$873,313**	$822,370

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated statement of cash flows

For the years ended October 31

In thousands of dollars	2003	2002
Cash flows relating to operating activities		
Net income	$ 91,867	$ 44,344
Adjustments to determine net cash flows relating to operating activities:		
Provision for credit losses	54,000	111,000
Gains on securitization operations	(1,859)	(9,818)
Net loss (gain) on disposal of capital assets	2,491	(335)
Restructuring costs	19,725	(629)
Gain on disposal of branches	(69,946)	–
Net gains on sale of securities held for investment	(14,043)	(8,507)
Future income tax expense	15,425	10,849
Depreciation and amortization	43,142	40,075
Net change in trading securities	(41,103)	(365,326)
Change in accrued interest receivable	5,423	(17,434)
Increase in unrealized gains and amounts receivable on derivative financial instruments	(30,539)	(5,963)
Change in accrued interest payable	53,590	3,037
Increase in unrealized losses and amounts payable on derivative financial instruments	26,498	27,142
Other, net	(20,710)	(52,491)
	133,961	(224,056)
Cash flows relating to financing activities		
Net change in deposits	209,531	352,235
Net change in obligations related to assets sold short	108,643	191,363
Net change in obligations related to assets sold under repurchase agreements	(274,616)	240,361
Issuance of preferred shares, net of issue costs	–	97,885
Redemption of preferred shares	(400)	(60,000)
Issuance of common shares, net of issue costs	583	11,990
Redemption of common shares of a subsidiary	(6,637)	–
Dividends, including applicable income taxes	(42,816)	(42,807)
	(5,712)	791,027
Cash flows relating to investing activities		
Net cash flows related to an acquisition of net assets	(28,427)	30,882
Net change in interest-bearing deposits with other financial institutions	(357,951)	(171,293)
Net change in securities held for investment	34,327	(328,461)
Net change in loans	57,742	(456,403)
Net change in assets purchased under reverse repurchase agreements	(12,206)	(220,159)
Proceeds from mortgage loan securitizations	39,836	697,555
Acquisitions of capital assets	(11,229)	(33,595)
Net cash flows from disposal of branches	165,112	–
Proceeds from disposal of capital assets	7,658	12,534
	(105,138)	(468,940)
Net change in cash and cash equivalents	23,111	98,031
Cash and cash equivalents at beginning of year	188,699	90,668
Cash and cash equivalents at end of year	$ 211,810	$ 188,699
Cash and cash equivalents are detailed as follows:		
Cash and due from other financial institutions without interest	$ 100,001	$ 168,726
Cheques and other items in transit, net	111,809	19,973
	$ 211,810	$ 188,699
Supplemental disclosure relating to cash flows:		
Interest paid during the year	$ 620,218	$ 602,624
Income taxes paid during the year	$ 24,994	$ 30,163

The accompanying notes are an integral part of the consolidated financial statements.

Notes to consolidated financial statements

October 31, 2003 and 2002 (All tabular amounts are in thousands of dollars, unless otherwise indicated.)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of Laurentian Bank of Canada (the "Bank") have been prepared in accordance with the *Bank Act,* which states that except as otherwise specified by the Superintendent of Financial Institutions of Canada, the financial statements are to be prepared in accordance with Canadian generally accepted accounting principles (GAAP). The significant accounting policies used in the preparation of these consolidated financial statements, including the accounting requirements of the Superintendent, are summarized below. These accounting policies conform, in all material respects, to GAAP.

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions, mainly concerning the valuation of items, which affect the amounts reported in the consolidated financial statements. Actual results could differ from those estimates.

Certain comparative figures have been reclassified to conform to the current year presentation.

BASIS OF CONSOLIDATION

The consolidated financial statements include the assets, liabilities and results of operations of the Bank and all of its subsidiaries after elimination of intercompany balances and transactions.

When the Bank effectively controls a subsidiary but does not hold all common and preferred shares, the non-controlling interest in the net book value of the subsidiary is presented separately from the shareholders' equity on the Bank's consolidated balance sheet. The non-controlling interest in the subsidiary's net income is presented net of income taxes as a separate item on the consolidated statement of income.

The consolidated financial statements include an interest in a joint venture which is recognized using the proportionate consolidation method. Under this approach, the Bank's prorated share of the assets, liabilities, revenues and expenses are consolidated.

SECURITIES

Investment account

Securities purchased with the original intention to hold them to maturity or until market conditions render alternative investments more attractive are included in the investment account. Fixed-term securities are recorded at amortized cost. Other securities are recorded at cost. Gains and losses on disposal of securities and write-downs to reflect other than temporary impairments in value are included in other income. Interest income earned, amortization of premiums and discounts as well as dividends received are included in interest income.

Loan substitute securities are included in the investment account. These securities are customer financings that have been structured as after-tax securities rather than conventional loans in order to provide the issuers with a borrowing rate advantage. These securities are recorded on the same basis as loans.

Trading account

Securities purchased for resale over a short period of time are included in the trading account and are recorded at their estimated current market value. Obligations related to assets sold short are reported as liabilities and are stated at their estimated current market value. Realized and unrealized gains and losses on these securities are included in other income. Interest income earned and dividends received are included in interest income.

ASSETS PURCHASED UNDER REVERSE REPURCHASE AGREEMENTS AND ASSETS SOLD UNDER REPURCHASE AGREEMENTS

The Bank enters into short-term purchases of securities under agreements to resell as well as short-term sales of securities under agreements to repurchase at predetermined prices and dates. These agreements are treated as collateralized lending and borrowing transactions and are carried on the balance sheet at the amounts at which the securities were initially acquired or sold. Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements are reported as interest income and interest expense, respectively.

LOANS

Loans are stated net of the allowance for loan losses and any unearned interest.

Loans are classified as impaired when, in management's opinion, there is a reasonable doubt as to the timely collectibility of the principal or interest. When payment of principal or interest is 90 days past due, the loans are classified as impaired (if they are not already classified as such), unless they are well-secured or in the process of recovery. All loans which are 180 days past due are classified as impaired except when they are guaranteed or insured by a Canadian government (federal or provincial) or a Canadian government agency; such loans are classified as impaired if they are in arrears for 365 days.

When loans are classified as impaired, the recognition of the interest due ceases. The book values of these loans are then brought back to their estimated realizable value by totally or partially writing off the loan and/or establishing an allowance for loan losses.

Subsequent recoveries of interest on impaired loans are recognized in income only if there is no specific allowance and if, in management's opinion, there is no reasonable doubt as to the ultimate collectibility of the total principal.

An impaired loan cannot return to an accrual status unless all principal and interest payments are up-to-date and management has no reasonable doubt as to the recovery of the loan.

Where a portion of a loan is written off and the remaining balance is restructured, the new loan is carried on an accrual basis when there is no longer any reasonable doubt regarding the collectibility of principal and interest, and payments are not 90 days past due.

Commissions and fees related to loans received as interest or related to changes in credit terms are generally recorded in interest income over the term of these loans.

Assets acquired by way of settlement of a loan initially are measured at fair value less costs to sell, if they meet the criteria to be classified as held for sale. If the assets are to be held and used, they are initially measured at fair value and assigned to an asset class reflecting their kind. The fair value of the foreclosed assets is determined based on a quoted market price, prices for similar assets or another valuation technique. Any difference between the carrying amount of the loan prior to foreclosure and the amount initially measured is recognized on the statement of income. Following initial recognition, the assets held for sale are revalued to reflect subsequent write-downs, as well as future increases in value, but not in excess of the previously recognized cumulative losses. As for assets to be held and used, they are then accounted for in the same manner as similar assets acquired in the normal course of business.

The application of this new recommendation did not have any material effect on the Bank's results. Previously, the property rights of assets acquired in settlement of a loan and intended for resale were also included in impaired loans at the lower of the loan balance and its net realizable value.

ALLOWANCE FOR LOSSES

The Bank maintains allowances for losses at an amount deemed adequate to absorb probable losses in its portfolios. Allowances are mainly related to loans, but may also apply to other assets.

The allowance for loan losses is increased by the provision for credit losses charged to income and reduced by write-offs net of recoveries. Loans are written off when all possible restructuring or recovery activities have been completed and it is unlikely that other amounts can be recovered.

Specific allowances

Specific allowances are established on a loan-by-loan basis to absorb losses on all impaired accounts which have been identified as a result of the regular review of the commercial and mortgage loans portfolio. These provisions are established by estimating the amounts recoverable in relation to the loan amounts; estimated future cash flows are discounted at the effective interest rate inherent in the loan. When these amounts cannot be reasonably estimated, the fair value of the underlying collateral or the observable market price of the loans are used to establish the allowances. For impaired personal loans, other than credit card balances and investment loans, an allowance is established based on the write-off experience on such loans in recent years. For credit card balances, no allowance is established; however, when no payment has been received for a period of 180 days, outstanding balances are written off. For impaired investment loans, a specific allowance is established on a loan-by-loan basis at the time of the regular review of the portfolio.

General allowances

The general allowance reflects the best estimate of potential losses, related to the deterioration of credit quality, within the portion of the portfolio that has not yet been specifically identified as impaired.

An allocated general allowance, based on the historical loss experience of the previous ten years and an economic cycle reference factor, is now computed for each pool of loans with common risk characteristics. This method allows the specific allocation of the general allowance to the identified pools of loans and the determination of an unallocated general allowance.

The unallocated general allowance reflects the assessment of potential losses on the portfolio which are not covered by the specific allowances and the allocated general allowance. This estimate includes consideration of economic and business conditions, the change in portfolio mix, management's judgment and the risks related to the model.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ACCEPTANCES

Acceptances are short-term negotiable instruments issued by the Bank's customers to third parties and guaranteed by the Bank. The potential liability under acceptances is reported as a liability on the balance sheet. The recourse against the customer in the case of a call on these commitments is reported as an asset of the same amount. Commissions earned are reported in other income.

CAPITAL ASSETS

Land is carried at cost. Other capital assets are recorded at cost less accumulated depreciation and are depreciated over their estimated useful lives based on the following methods and rates:

	Methods	Rates
Premises	Declining balance	5%
Leasehold improvements	Straight-line	Term of the lease plus initial renewal option
Equipment and furniture	Declining balance	20%
Computer equipment and software	Straight-line or declining balance	10% to 30%

Gains and losses resulting from the sale of capital assets are recorded under other income.

GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and intangible assets determined to have an indefinite useful life are tested for impairment, at least annually, based on their fair values. The impairment test initially compares the fair value of the reporting unit to which the goodwill relates to its carrying amount. When potential impairment is identified, the fair value of goodwill is compared to its carrying amount. Impairment identified in the transitional test as at the initial date of application, November 1, 2001, was charged to opening retained earnings (see note 7). Subsequent impairment is charged to income during the periods in which the losses are incurred.

The Bank mainly uses the discounted cash flows method to determine the fair value of its reporting units.

LOAN SECURITIZATION

Based on securitization arrangements, the Bank transfers pools of mortgages to special-purpose entities, which, in turn, issue securities to investors. Mortgage loan securitization is part of the Bank's liquidity and capital management strategies.

Since June 1, 2001, the Bank has applied the Canadian Institute of Chartered Accountants' (CICA) Accounting Guideline no. 12 with respect to the transfer of receivables. These transfers are accounted for as sales when the Bank is deemed to have surrendered control over these assets.

At this point, the Bank derecognizes all assets sold, recognizes at fair value the assets received and the liabilities assumed in the sale and records the gain or loss on the sale in other income.

In connection with these transactions, the Bank retains, in some instances, interests in securitized receivables such as cash reserve accounts, one or more subordinated tranches, servicing rights and excess interest spread. The gain or loss depends partly on the previous carrying value of the loans that are included in the transfer, allocated between the assets sold and the interests retained based on their respective fair value at the time of the transfer. To calculate fair values, the Bank usually estimates the discounted value of future cash flows. These calculations are based on management's best estimates with respect to key assumptions–credit losses, rate of prepayment, interest-rate curve and risk-adjusted discount rate.

Cash reserve accounts related to these transactions are initially recorded at cost and presented under other assets. They are subsequently re-evaluated to identify permanent impairments in value.

For certain transactions, the Bank retains an interest, until mortgage-backed securities mature, in the excess interest spread initially recorded at cost and presented in other assets. This excess interest spread, which affects the determination of gains or losses on the transfer date, corresponds to the interest collected from mortgage holders less interest paid to securities' holders. As mortgage payments are received, this excess decreases and the resulting yield is recognized to interest income. Any permanent impairment in value is immediately charged to income.

The retained subordinated tranches are also recorded at cost and presented with securities in the investment account.

The Bank generally transfers receivables on a full servicing basis. On the transfer date, a servicing liability is recognized at fair value and presented in other liabilities. This liability is amortized to income over the term of the transferred loans.

In addition, for certain securitization transactions, the Bank guarantees the return and payment of principal upon maturity to securities' holders. This obligation is initially recorded at fair value and re-evaluated periodically, charging any changes in the fair value to income.

Transactions completed prior to June 1, 2001 are recorded in accordance with the instructions set forth in Abstract no. 9, "Transfers of Receivables," issued by the CICA's Emerging Issues Committee and have not been restated. Gains related to transactions completed according to the former standards are amortized to income when the significant risks and rewards of ownership have been transferred provided there is no possible recourse against the Bank on the transaction. To the extent that there was a recourse against the Bank on the transaction, any gain on sale was deferred until there was no recourse left against the amount collected. Losses on these transactions, if any, were recognized immediately.

EMPLOYEE FUTURE BENEFITS

Pension plans

The Bank maintains defined benefit pension plans for its employees. One of these plans also includes a defined contribution portion. Funding is provided by both the Bank and the members of the plans.

Under the defined benefit plans, retired employees are eligible for benefits based on the length of service and the average salary at retirement. An actuarial valuation is performed periodically to determine the present value of accrued pension obligations based on projected benefits and management's best estimates. The obligation for accrued benefits is valued using market interest rates. Pension plan assets are valued at fair value using a market-related value approach. The method is also used to calculate the expected return on plan assets. For these plans, the pension expense consists of: a) the cost for the current year's service, b) interest expense on the accrued benefit obligation, c) expected return on plan assets, d) amortization of the transitional obligation, the cost for past service and the actuarial gains or losses, e) gains or losses arising from special events, and f) change in the valuation allowance.

The cost for past service resulting from changes to the defined benefit plans is amortized on a straight-line basis over the expected average remaining service life of the employee groups covered by the defined benefit plans. Actuarial gains or losses are amortized when, at the beginning of the year, the unamortized balance of the gain or loss exceeds 10% of the accrued benefit obligation or the market value of plan assets, whichever amount is greater. This excess is amortized on a straight-line basis over the expected average remaining service life of the groups covered by the plans. The transitional obligation resulting from the application of the standard with respect to employee future benefits, since November 1, 2000, is amortized on a straight-line basis over the average remaining service period of active employees who should normally receive benefits under these plans, varying from 10 to 20 years.

Since January 1, 2001, one of its plans offers a defined contribution portion for certain categories of employees. Plan members who were active at this date could elect to remain in the defined benefit portion or participate in the defined contribution portion for future years of participation. Members who join the plan after January 1, 2001 are required to participate in the defined contribution portion. The expense for this portion corresponds to the contributions the Bank is required to make during the year.

Other plans

The Bank also provides certain healthcare and life insurance benefits for its employees upon retirement. The costs related to these benefits are accumulated during the employees' service life according to accounting policies similar to those applied to defined benefit plans.

DERIVATIVE FINANCIAL INSTRUMENTS

The Bank uses derivatives to manage its exposure to interest rate and currency risks, to serve the needs of customers and earn trading income. The most frequently used derivative products are interest rate and foreign exchange swaps, foreign currency and interest rate futures, and options.

Derivative products are valued at prevailing market rates when used in trading activities or to meet customers' needs. Realized and unrealized gains and losses are included in other income. When derivative products are used to manage the Bank's own exposure, income and expenses are recognized over the term of the transaction in net interest income, while the realized gains and losses are generally deferred and amortized to net interest income over the life of the hedged items.

INCOME TAXES

The Bank uses the liability method of tax allocation and reports, in other assets, the future income tax assets resulting from loss carryforwards and temporary differences between the carrying amounts and the tax basis of assets and liabilities, in accordance with tax laws and rates enacted or substantively enacted on the date the differences are expected to reverse.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash and due from other financial institutions without interest and net cheques and other items in transit, which are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

NET INCOME PER COMMON SHARE

The Bank calculates its basic net income per common share by dividing net income for the year, after deduction of preferred share dividends, including applicable income taxes, by the weighted average number of common shares outstanding for the year.

Diluted net income per common share is calculated assuming that the proceeds received from the exercise of stock options are used to repurchase common shares at their average market price during the year.

STOCK-BASED COMPENSATION

On November 1, 2002, the Bank adopted, on a prospective basis, the fair-value method of accounting for stock-based compensation to employees. The fair value of new options granted on or after this date is charged to income over the option vesting period. The value of the options granted is determined using the Black-Scholes option-pricing model using management's best estimate. With respect to awards prior to November 1, 2002, the Bank continues to apply the previous standards under which no compensation cost is recognized when stock options are awarded to employees and the consideration paid by the employees who exercise their stock options is credited to common equity.

The fair value of stock appreciation rights (SARs) settled in cash, representing the excess of the share price over the exercise price, is recognized in income over the rights' vesting period.

ASSETS UNDER ADMINISTRATION AND ASSETS UNDER MANAGEMENT

The Bank administers and manages assets held by customers that are not recognized on the consolidated balance sheet. Revenues related to these assets are recorded in other income, as the service is provided.

TRANSLATION OF FOREIGN CURRENCIES

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the prevailing year-end exchange rates. Income and expenses are translated at the average monthly exchange rates. Gains and losses resulting from the translation of foreign currencies are included in other income.

FUTURE CHANGES TO ACCOUNTING POLICIES

Hedging relationships

In December 2001, the Accounting Standards Board issued Accounting Guideline no. 13 (AcG-13) "Hedging Relationships." In June 2002, the CICA Emerging Issues Committee also issued EIC-128 "Accounting for Trading, Speculative or Non-Hedging Derivative Financial Instruments." AcG-13 establishes criteria for the identification, designation, documentation and effectiveness of hedging relationships for the purpose of applying hedge accounting. EIC-128 establishes that a free-standing derivative financial instrument that gives rise to a financial asset or financial liability and is entered into for trading or speculative purposes, or that does not qualify for hedge accounting under AcG-13, should be recognized on the balance sheet and measured at fair value, with changes in fair value recognized in current income. The provisions will come into effect for the year beginning November 1, 2003 for the Bank. The initial application of these new accounting pronouncements is not expected to have a material impact on the Bank's consolidated financial statements. Moreover, it is not possible to determine the impact of applying these guidelines on future income, as it depends on, among other things, the nature and fluctuations of the fair value of the contracted derivative financial instruments.

Variable interest entities

In June 2003, the CICA issued Accounting Guideline no. 15 (AcG-15) "Consolidation of Variable Interest Entities." This guideline sets out the criteria for determining variable interest entities (VIEs), the primary beneficiary among the VIEs and the entity who will be required to consolidate the latter. A VIE is an entity whose total equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties. This accounting guideline will apply to the year beginning on November 1, 2004 for the Bank, except for certain disclosure requirements pertaining to the entities' activities and maximum exposure to loss, which will apply as of February 1, 2004. The Bank is currently assessing the impact of this new guideline.

2. ACQUISITIONS AND SALE

2003

Sale of branches to Toronto-Dominion Bank

The Bank entered into an agreement to sell, as of October 31, 2003, 57 branches located in Ontario and Western Canada to The Toronto-Dominion Bank (TD Bank). The sale price, payable in cash, represents the book value, as at October 31, 2003, of the loans and other assets sold less deposits and other liabilities assumed plus a premium of $112,400,000. A preliminary instalment, based on the volumes as at September 30, 2003 of net assets held for sale, was payable on October 31, 2003. These operations were presented in the Retail Financial Services line of business.

Net value of assets sold:

Identifiable assets sold	
Cash	$ 8,969
Loans	1,965,219
Other assets	9,778
Liabilities transferred	
Cheques and other items in transit, net	32,273
Deposits	1,884,856
Other liabilities	53,277
Net value of assets sold	13,560
Excess of sale price over net value of assets sold (premium)	112,400
Sale price	$ 125,960
Composed of:	
Preliminary instalment, received in cash	$ 156,521
Adjustment payable related to decrease in volumes sold (note 10)	$ (30,561)

Calculation of gain on disposal:

Excess of sale price over net value of assets sold (premium)	$ 112,400
Expenses related to the transaction (1)	42,454
Gain on disposal ($54,946,000, net of taxes)	$ 69,946

(1) Costs related to the transaction include, among other things, write-offs of capital assets and deferred charges totalling $15,958,000, losses on hedging items related to interest rate risk management amounting to $14,713,000 and costs related to the transfer of activities and other costs for a total of $11,783,000. As at October 31, 2003, $32,510,000 had been incurred.

Acquisition of loans of Canadian Tire Financial Services

On December 24, 2002, B2B Trust, a subsidiary of the Bank, completed the purchase, for a cash consideration of $28,427,000, of certain Canadian Tire Financial Services Limited branded consumer lines of credit from another financial institution.

2002

Acquisition of net assets of Sun Life Financial Trust Inc.

On September 3, 2002, B2B Trust, a subsidiary of the Bank, and the Bank jointly completed the acquisition of portfolios of mortgage loans and personal loans valued at approximately $28,528,000 and $38,227,000 respectively of Sun Life Financial Trust Inc. In return, the Bank and its subsidiary assumed deposit liabilities valued at approximately $98,002,000 and received an amount of $30,882,000, net of acquisition costs incurred of approximately $365,000.

3. SECURITIES

A) MATURITY SCHEDULE AND RETURN ON INVESTMENT ACCOUNT

					2003		2002	
	Within 1 year $	1 to 5 years $	Over 5 years $	No stated maturity $	Total $	%	Total $	%
Investment account								
Securities issued								
or guaranteed								
by Canada	370,066	897,683	49,965	–	1,317,714	3.1	1,165,862	3.0
by provinces	256,497	128,385	8,047	–	392,929	3.0	703,206	3.4
Other debt securities	21,331	87,237	100,927	–	209,495	5.2	71,924	6.0
Preferred shares	–	–	–	52,785	52,785	2.1	29,771	1.5
Common shares and other	–	–	–	54,148	54,148	3.0	63,454	2.2
Mortgage-backed securities	–	25,872	11,358	–	37,230	8.2	43,900	7.9
Loan substitutes	–	–	–	–	–	–	6,468	3.2
	647,894	1,139,177	170,297	106,933	2,064,301	3.3	2,084,585	3.3
Trading account								
Securities issued								
or guaranteed								
by Canada	14,400	73,585	91,990	–	179,975		418,958	
by provinces	69,368	312,567	217,641	–	599,576		367,188	
by municipal corporations	10,187	9,452	13,684	–	33,323		44,033	
Other debt securities	32,491	25,476	97,266	–	155,233		123,703	
Common shares and other	–	–	–	–	–		2	
Mortgage-backed securities	3,589	29,433	5,446	–	38,468		11,588	
	130,035	450,513	426,027	–	1,006,575		965,472	
	777,929	1,589,690	596,324	106,933	3,070,876		3,050,057	

The term to maturity included in the schedule above is based on the contractual maturity date of the security.
The weighted average return is calculated based on the book value at the year-end of each type of security.

B) INVESTMENT ACCOUNT – UNREALIZED GAINS AND LOSSES

				2003				2002
	Book value	Gross unrealized gains	Gross unrealized losses	Estimated market value	Book value	Gross unrealized gains	Gross unrealized losses	Estimated market value
Securities issued								
or guaranteed								
by Canada	$1,317,714	$ 142	$ 4,442	$1,313,414	$1,165,862	$1,272	$ 4	$1,167,130
by provinces	392,929	42	206	392,765	703,206	1,276	1,805	702,677
Other debt securities	209,495	2,480	2,580	209,395	71,924	557	404	72,077
Preferred shares	52,785	574	900	52,459	29,771	1	843	28,929
Common shares and other	54,148	191	9,413	44,926	63,454	157	12,785	50,826
Mortgage-backed securities	37,230	1,184	–	38,414	43,900	830	–	44,730
Loan substitutes	–	–	–	–	6,468	–	–	6,468
	$2,064,301	$4,613	$17,541	$2,051,373	$2,084,585	$4,093	$15,841	$2,072,837

For the year ended October 31, 2003, the net change in securities held for investment totalling $34,327,000 represents acquisitions amounting to $30,244,718,000, maturities in the amount of $186,997,000 and proceeds of sales of $30,092,048,000.

4. LOANS

A) LOANS AND IMPAIRED LOANS

2003	Gross amount of loans	Gross amount of impaired loans	Specific allowances	General allowances	Total allowances
Personal loans	$ 3,646,070	$ 19,594	$ 9,311	$19,715	$ 29,026
Residential mortgages	5,274,128	13,991	3,741	5,611	9,352
Commercial mortgages	705,101	13,030	6,048	7,561	13,609
Commercial loans and other	1,571,491	138,571	66,827	20,167	86,994
Unallocated general allowance	–	–	–	24,196	24,196
	$11,196,790	$185,186	$85,927	$77,250	$163,177

2002	Gross amount of loans	Gross amount of impaired loans	Specific allowances	General allowances	Total allowances
Personal loans	$ 3,865,455	$ 24,364	$ 8,563	$19,479	$ 28,042
Residential mortgages	6,645,899	14,152	6,952	7,133	14,085
Commercial mortgages	955,772	26,561	17,216	10,156	27,372
Commercial loans and other	1,872,901	161,920	99,650	24,356	124,006
Unallocated general allowance	–	–	–	24,376	24,376
	$13,340,027	$226,997	$132,381	$85,500	$217,881

In 2003, the recorded investment in foreclosed loans amounts to $6,469,000 and the elimination of the related specific allowances totals $1,412,000. In 2002, impaired loans included foreclosed assets in the amount of $9,867,000 and specific allowances related to these foreclosed assets totalled $4,377,000.

B) SPECIFIC ALLOWANCES FOR LOAN LOSSES

	Personal loans	Residential mortgages	Commercial mortgages	Commercial loans and other	2003 Total specific allowances	2002 Total specific allowances
Balance at beginning of year	$ 8,563	$ 6,952	$ 17,216	$ 99,650	$ 132,381	$ 48,512
Provision for credit losses recorded in the consolidated statement of income	26,267	1,201	1,603	28,929	58,000	111,000
Allowance for loan losses resulting from sale of branches	3,453	–	–	1,047	4,500	–
Write-offs [1]	(32,327)	(4,963)	(12,874)	(63,216)	(113,380)	(30,924)
Recoveries	3,355	551	103	417	4,426	3,793
Balance at end of year	$ 9,311	$ 3,741	$ 6,048	$ 66,827	$ 85,927	$132,381

(1) No restructured loans were written-off during the years ended October 31, 2003 and 2002.

C) GENERAL ALLOWANCES FOR LOAN LOSSES

	Personal loans	Residential mortgages	Commercial mortgages	Commercial loans and other	Unallocated general allowance	2003 Total general allowances	2002 Total general allowances
Balance at beginning of year	$19,479	$ 7,133	$10,156	$24,356	$24,376	$85,500	$85,000
Change during the year	1,485	151	(1,361)	(4,095)	3,820	–	–
Reduction in provision for credit losses recorded in the consolidated statement of income	–	–	–	–	(4,000)	(4,000)	–
Allowances for loan losses resulting from sale of branches	(1,499)	(1,673)	(1,234)	(94)	–	(4,500)	–
Allowances for loan losses resulting from acquisitions	250	–	–	–	–	250	500
Balance at end of year	$19,715	$ 5,611	$ 7,561	$20,167	$24,196	$77,250	$85,500

5. LOAN SECURITIZATION

Under the mortgage-backed securities program provided for under the *National Housing Act,* residential mortgage loans insured by the Canadian Mortgage and Housing Corporation (CMHC) totalling $39,999,000 ($275,646,000 in 2002) were securitized through the creation of mortgage-backed securities. The Bank subsequently sold all of these mortgage-backed securities (for $249,144,000 of such securities in 2002 and recorded the difference on the balance sheet as securities in the investment account). The Bank also securitized conventional residential mortgages for $401,013,000 in 2002 and commercial mortgages for $53,117,000 in 2002, under other programs.

In relation to this transaction, during the year, the Bank collected cash proceeds amounting to $39,836,000 ($697,555,000 in 2002) and recognized, in other income, a securitization gain of $1,859,000 ($9,818,000 in 2002) net of transaction-related costs. The calculation of this gain takes into account the rights to excess interest spread of $2,529,000 ($24,869,000 in 2002) and cash reserve accounts of $nil ($8,017,000 in 2002) and a servicing liability of $383,000 ($5,198,000 in 2002). The Bank has not retained any right or obligation with respect to the commercial mortgages sold in 2002.

With regard to the transfer of residential mortgage loans, the key assumptions used to determine the initial fair value of retained interests are summarized as follows:

Key assumptions	2003	2002
Rate of prepayment	11%	10% to 11%
Excess spread	2.21%	1.5%
Expected credit losses on conventional residential mortgages [1]	n/a	0.25%
Discount rate	6.45%	6.5% to 7.2%

(1) No loss is expected on insured residential mortgages.

During the year, the Bank collected cash flows from retained interests totalling $18,175,000 ($8,690,000 in 2002). The amortization relating to the servicing liability recognized in income amounted to $2,327,000 ($1,454,000 in 2002).

On October 31, 2003, the Bank had retained interests related to residential mortgage securitization transactions amounting to $18,002,000 ($29,143,000 in 2002). The sensitivity of the fair value of the retained interests to immediate unfavorable changes of 10% and 20% in the key assumptions used to value retained interests as at October 31, 2003.

Sensitivity of key assumptions to unfavorable changes	2003	2002
	Residential mortgages	Residential mortgages
Weighted average life (in months)	29	35
Rate of prepayment	14.8%	11%
Impact on fair value of unfavorable change of 10%	$192	$ 765
Impact on fair value of unfavorable change of 20%	$382	$1,512
Excess spread	1.93%	1.51%
Impact on fair value of unfavorable change of 10%	$416	$1,191
Impact on fair value of unfavorable change of 20%	$832	$2,382
Expected credit losses [1]	0.25%	0.25%
Impact on fair value of unfavorable change of 10%	$ 97	$ 221
Impact on fair value of unfavorable change of 20%	$194	$ 403
Discount rate	6.5%	6.9%
Impact on fair value of unfavorable change of 10%	$103	$ 55
Impact on fair value of unfavorable change of 20%	$206	$ 112

(1) Expected credit losses on conventional residential mortgages only. No loss is expected on insured residential mortgages.

These sensitivities are hypothetical and should be used with caution. Changes in the fair value attributed to changes in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in the fair value may not be linear. Changes in one factor may result in changes in another factor which might magnify or counteract the sensitivities attributed to changes in key assumptions.

The total principal amount of securitized loans under the new standards totalled $611,393,000 at the end of the year ($738,558,000 at the end of 2002).

The total principal amount of securitized loans accounted for under the former standards totalled $329,120,000 at the end of the year ($842,593,000 at the end of 2002).

6. CAPITAL ASSETS

	Cost	Accumulated depreciation	2003 Net book value	2002 Net book value
Land	$ 773	$ –	$ 773	$ 3,541
Premises	4,788	249	4,539	13,124
Leasehold improvements	41,449	25,193	16,256	20,490
Equipment and furniture	69,999	59,088	10,911	13,269
Computer equipment and software	262,226	180,226	82,000	110,173
	$379,235	$264,756	$114,479	$160,597

Depreciation expense recorded in the consolidated statement of income amounts to $42,390,000 ($39,199,000 in 2002).

Computer equipment and software include an amount totalling $3,579,000 ($13,712,000 in 2002) related to projects under development that are not depreciated.

7. GOODWILL

Changes in goodwill are detailed as follows:

	Retail Financial Services	Commercial Financial Services	B2B Trust	Wealth Management and Brokerage	Total
Balance as at October 31, 2001	$53,790	$ 4,771	$91	$ 5,400	$64,052
Impairment based on transitional test	–	(4,771)	–	(5,161)	(9,932)
Write-off	–	–	(91)	–	(91)
Balance as at October 31, 2002	$53,790	$ –	$ –	$ 239	$54,029
Balance as at October 31, 2003	**$53,790**	**$ –**	**$ –**	**$ 239**	**$54,029**

Refer to note 23 for the description of business segments.

8. OTHER ASSETS

	2003	2002
Future income tax assets (note 16)	$109,730	$121,200
Assets related to securitized mortgage loans	46,852	71,899
Accrued interest receivable	79,762	90,334
Derivative financial instruments related amounts	92,272	63,747
Accrued benefit assets (note 14)	36,244	38,272
Mutual fund management contract (see below)	1,878	2,630
Accounts receivable, prepaid expenses and other items	145,978	165,127
	$512,716	$553,209

Reorganization of Iris and R mutual funds

On December 31, 2001, the Bank proceeded with the reorganization of IRIS Funds and R Funds. The management contract relating to the IRIS Funds was sold to BLC-Edmond de Rothschild Asset Management Inc., a joint venture of the Bank and Compagnie financière Edmond de Rothschild Banque, for a cash consideration totalling $12,500,000 that generated a gain of $2,694,000. Following the sale of the management contract, the Bank only maintains its share of the contract that pertains to its interest in the joint venture. Amortization of the mutual fund contract recorded in the consolidated statement of income, during the year, amounts to $752,000 ($876,000 in 2002).

9. DEPOSITS

				2003
	Demand	**Notice**	**Term**	**Total**
Personal	**$ 98,543**	**$1,709,566**	**$ 8,700,483**	**$10,508,592**
Business and other	**506,971**	**123,640**	**2,153,746**	**2,784,357**
	$605,514	**$1,833,206**	**$10,854,229**	**$13,292,949**

				2002
	Demand	Notice	Term	Total
Personal	$105,609	$1,879,458	$10,022,890	$12,007,957
Business and other	618,792	131,108	2,210,417	2,960,317
	$724,401	$2,010,566	$12,233,307	$14,968,274

Demand deposits consist of deposits in respect of which the Bank is not authorized to require a notice at the time of withdrawal by the customer. These deposits are primarily made up of checking accounts.

Notice deposits consist of deposits in respect of which the Bank may legally require a withdrawal notice. These deposits are generally made up of savings accounts.

Term deposits consist of deposits maturing at a specific date, in particular term deposits and guaranteed investment certificates.

Deposits denominated in U.S. dollars amount to $421,106,000 ($303,593,000 in 2002) and deposits denominated in other foreign currencies amount to $1,573,000 ($43,061,000 in 2002).

10. OTHER LIABILITIES

	2003	2002
Accrued interest payable	**$467,674**	$467,361
Liabilities related to securitized mortgage loans [1]	**47,653**	96,410
Derivative financial instruments related amounts	**94,692**	68,194
Adjustment of sale price of branches (note 2)	**30,561**	–
Accrued benefit liabilities (note 14)	**13,294**	10,975
Accounts payable, accrued expenses and other items (note 15)	**97,610**	73,967
	$751,484	$716,907

(1) Includes deferred gains in the amount of $4,014,000 ($10,475,000 in 2002).

11. SUBORDINATED DEBENTURES

The debentures are direct unsecured obligations of the Bank and are subordinated in right of payment to the claims of depositors and certain other creditors of the Bank. Any repurchase or cancellation of subordinated debentures must be approved by the Superintendent of Financial Institutions of Canada.

Maturity	Series	Interest rate	Special terms	2003	2002
June 2009	7	5.75%	Redeemable at par as of June 2004; rate to be revised in June 2004 and set at the 90-day bankers' acceptance rate plus 1%.	**$100,000**	$100,000
December 2009	8	7.00%	Redeemable at par as of December 2004; rate to be revised in December 2004 and set at the 90-day bankers' acceptance rate plus 1.25%.	**100,000**	100,000
October 2010	6	8.90%	Redeemable at par as of October 2005; rate to be revised in October 2005 and set at the 90-day bankers' acceptance rate plus 1%.	**50,000**	50,000
June 2011	9	6.50%	Redeemable at par as of June 2006; rate to be revised in June 2006 and set at the 90-day bankers' acceptance rate plus 1.25%.	**150,000**	150,000
				$400,000	$400,000

The maturities of the debentures, assuming the earliest possible dates of repayment under the terms of issue, are as follows:

2004	**$100,000**
2005	**150,000**
2006	**150,000**
	$400,000

12. CAPITAL STOCK

Authorized:
Preferred shares – Unlimited number of Class A Preferred Shares, without par value, issuable in series.
Common shares – Unlimited number of Common Shares, without par value.

Issued and outstanding as at October 31:	**2003**		2002	
	Number of shares	**Amount**	Number of shares	Amount
Class A Preferred Shares				
Series 2	**–**	**$ –**	4 000	$ 400
Series 7	**2,000,000**	**50,000**	2,000,000	50,000
Series 8	**2,000,000**	**50,000**	2,000,000	50,000
Series 9	**4,000,000**	**100,000**	4,000,000	100,000
Total preferred shares	**8,000,000**	**200,000**	8,004,000	200,400
Common Shares	**23,435,585**	**246,813**	23,408,603	246,230
Total capital stock		**$446,813**		$446,630

12. CAPITAL STOCK (CONTINUED)

Preferred shares

Terms of shares

The Class A Preferred Shares, Series 2, were entitled to a cumulative dividend at a rate equal to the greater of 7% or 70% of the average daily prime rate. These shares were redeemable at the option of the Bank at a price of $100 per share. The Bank also could purchase the shares for cancellation, on the market or by invitation for tender to all holders at a price per share not exceeding the redemption price applicable plus any related purchase fees.

The Class A Preferred Shares, Series 6, were entitled to a non-cumulative quarterly dividend of $0.547 per share. On or after November 26, 2001, the Bank was able to redeem these shares at a price of $25 each or to convert them into the number of common shares determined by dividing $25 by the greater of $3 or 95% of the weighted average prevailing market price of the common shares at that date. On or after February 26, 2002, each share was convertible, at the option of the holder, into the number of common shares determined by dividing $25 by the greater of $3 or 95% of the weighted average prevailing market price of the common shares at that date; this conversion was subject to the right of the Bank to redeem the shares for cash or to find substitute purchasers.

The Class A Preferred Shares, Series 7 and 8, are entitled to a non-cumulative quarterly dividend of $0.484 per share. Since June 15, 2003, the Bank can redeem these shares at a price of $25 each plus, if the redemption takes place before June 15, 2005, a premium of $1 which will decrease to zero depending on the date of redemption. Moreover, since June 15, 2003, the Bank can convert all or a portion of the Preferred Shares, Series 7 and 8, into a round number of common shares determined by dividing the redemption price then applicable by the greater of $3 or 95% of the weighted average prevailing market price of the common shares at that date. On or after June 15, 2005, each share will be convertible, at the option of the holder, into the number of common shares determined by dividing $25 by the greater of $3 or 95% of the weighted average prevailing market price of the common shares at that date; this conversion will be subject to the right of the Bank to redeem the shares for cash or to find substitute purchasers.

The Class A Preferred Shares, Series 9, are entitled to a non-cumulative quarterly dividend of $0.375 per share. On or after December 15, 2006, the Bank will be able to redeem these shares at a price of $25 each plus, if the redemption takes place before December 15, 2010, a premium of $1 which will decrease to zero depending on the date of redemption. Moreover, the Bank will be able, on or after December 15, 2006, to convert all or a portion of the Preferred Shares, Series 9, into a round number of common shares determined by dividing the redemption price then applicable by the greater of $2.50 or 95% of the weighted average prevailing market price of the common shares at that date.

Redemption of preferred shares

On June 30, 2003, the Bank redeemed all of its Cumulative Class A Preferred Shares, Series 2 at a price of $100 per share, for a consideration of $400,000. The preferred shares so called for redemption ceased to be entitled to dividends from the redemption date.

On November 26, 2001, the Bank redeemed all of its Non-Cumulative Class A Preferred Shares, Series 6 at a price of $25 per share, for an aggregate consideration of $60,000,000. The preferred shares so called for redemption ceased to be entitled to dividends from the redemption date.

Issuance of preferred shares

On November 7, 2001, the Bank issued 4,000,000 Preferred Shares Series 9 at a price of $25 per share, representing total proceeds of $100,000,000. The net proceeds to the Bank amounted to $97,885,000.

Common shares

Issuance of common shares

During the year, 26,982 common shares (540,663 shares in 2002) were issued under the employee share purchase option plan for key employees of the Bank for a cash consideration of $583,000 ($11,990,000 in 2002).

Shareholder Rights Plan

The Bank has a Shareholder Rights Plan (the "Rights Plan") intended to encourage the fair treatment of shareholders in connection with any take-over bid for the Bank. The rights issued under the Rights Plan become exercisable only when a person, including related persons, acquires or announces its intention to acquire 20% or more of the Bank's outstanding common shares without complying with the "Permitted Bid" provisions of the Rights Plan or without approval of the Board of Directors of the Bank. Should such an acquisition occur, each right would, upon exercise, entitle a rights holder, other than the acquiring person and related persons, to purchase common shares of the Bank at a 50% discount of the market price at the time. Under the Rights Plan, a Permitted Bid is a bid made by means of a take-over bid circular sent to all shareholders of the Bank and is open for not less than 60 days. If at the end of the 60 days, at least 50% of the outstanding common shares have been tendered, other than those belonging to the offeror or related persons, the offeror may take up and pay for the shares but must extend his bid for a further 10 days to allow other shareholders to tender their shares. In the event of a hostile take-over bid, the rights will cause substantial dilution to the person attempting the take-over.

13. STOCK-BASED COMPENSATION

Share purchase options

Pursuant to a share purchase option plan, options are granted to key employees for the purchase of common shares at prices not less than the market prices of such shares immediately prior to the grant date.

The right to exercise the options is acquired gradually over a maximum period of five years and the options can be exercised at all times up to ten years after they have been granted.

As at October 31, 2003, the Bank had reserved 1,600,000 common shares (1,600,000 shares in 2002) for the potential exercise of share purchase options, of which 68,893 (66,843 in 2002) were still available.

The following table shows the Bank's outstanding share purchase options for the years ended October 31:

	2003		2002	
	Number of options	Weighted average exercice price per option	Number of options	Weighted average exercice price per option
Outstanding, beginning of year	624,554	$26.54	1,074,353	$24.15
Granted	–	$ –	100,000	$28.22
Exercised	(26,982)	$21.62	(540,663)	$22.18
Cancelled	(2,050)	$27.03	(9,136)	$22.38
Outstanding, end of year	595,522	$26.76	624,554	$26.54
Exercisable, end of year	476,848	$26.60	370,891	$26.63

The following table summarizes information relating to share purchase options outstanding and exercisable at October 31, 2003.

	Options outstanding			Options exercisable	
Range of exercise prices	Number of options outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price per option	Number of options exercisable	Weighted average exercise price per option
$15.85 - $19.94	74,234	4.90	$18.71	56,135	$18.48
$21.35 - $25.14	92,482	5.48	$22.23	89,107	$22.15
$27.08 - $31.80	428,806	5.81	$29.13	331,606	$29.17
	595,522			476,848	

Fair value method

On November 1, 2002, the Bank adopted, on a prospective basis, the CICA's recommendations regarding the recognition of an expense in income for share purchase option awards using the fair value method of accounting. Since the Bank did not award any options in 2003, no expense was recognized.

Other stock-based compensation plans

The Bank offers a stock appreciation rights ("SAR") plan to members of senior management of the Bank and its subsidiaries. These SARs may be settled in consideration of a cash amount equal to the difference between the SAR exercise price and the closing price of the common shares at the measurement date. SARs are acquired over a maximum period of five years and can be exercised over a maximum period of ten years. During the year, an expense of $31,000 ($139,000 in 2002) was recorded relating to this plan. As at October 31, 2003, 438,031 SARs (471,663 in 2002) were outstanding at a weighted average exercise price of $25.25 ($25.01 in 2002), of which 286,441 (220,285 in 2002) were exercisable at the end of the year. As at October 31, 2003, the weighted average remaining life of SARs was 5.57 years (6.59 years in 2002).

A deferred share unit plan is also offered to non-employee directors of the Bank. Under this plan, each director may choose to receive all or a percentage of his remuneration in the form of deferred share units settled in cash. The deferred share units are converted when the holder steps down from the Board of Directors. As at October 31, 2003, there were 13,168 units outstanding with a total value of $365,000 ($380,000 in 2002). The compensation expense recorded during the year, in respect of this plan, was $114,000 ($181,000 in 2002).

13. STOCK-BASED COMPENSATION (CONTINUED)

B2B Trust share purchase option plan

Under a share purchase option plan, B2B Trust grants options to its directors, officers and key employees, as well as to the directors and officers of Laurentian Bank, for the purchase of common shares at prices not less than the market price of such shares immediately prior to the grant date. The right to exercise the options is acquired gradually over a maximum period of four years, and the options can be exercised at all times over a maximum period of ten years after they have been granted. As at October 31, 2003, there were 849,000 options (902,500 in 2002) outstanding at a weighted average exercise price of $8.92 ($8.98 in 2002), of which 252,975 (nil in 2002) could be exercised at year-end. As at October 31, 2003, the weighted average remaining life of the options was 7.7 years (8.6 years in 2002).

During the year, B2B Trust awarded 45,000 options for which an expense of $43,000 was recognized in consolidated income under the CICA's new recommendations.

14. EMPLOYEE FUTURE BENEFITS

The following table provides information about the Bank's employee future benefit plans, including the amounts recorded in the consolidated balance sheet and the components of the net plan expense.

	2003		2002	
	Pension plans	Other plans	Pension plans	Other plans
Change in accrued benefit obligation				
Accrued benefit obligation at beginning of year	$231,628	$ 16,403	$210,109	$ 16,216
Service cost	6,530	127	6,551	119
Cost of past service	–	–	5,816	–
Interest cost	16,502	1,055	15,293	1,043
Benefits paid	(10,999)	(1,040)	(10,428)	(975)
Plan participant contributions	3,082	–	3,019	–
Actuarial loss (gain)	3,217	5,925	(633)	–
Other	1,635	–	1,901	–
Accrued benefit obligation at end of year	$251,595	$ 22,470	$231,628	$ 16,403
Change in fair value of plan assets				
Fair value of plan assets at beginning of year	$184,014	$ –	$198,262	$ –
Actual return on plan assets	13,097	–	(14,397)	–
Bank's contributions	6,002	–	7,115	–
Plan participant contributions	3,082	–	3,019	–
Benefits paid	(10,334)	–	(9,985)	–
Fair value of plan assets at end of year	$195,861	$ –	$184,014	$ –
Funded status				
Overfunded (underfunded) status at end of year	$ (55,734)	$(22,470)	$ (47,614)	$(16,403)
Unrecognized transition obligation	1,111	13,476	1,375	14,297
Unrecognized cost of past services	4,710	–	5,362	–
Unrecognized net actuarial loss	75,932	5,925	70,280	–
Accrued benefit asset (liability) at end of year	$ 26,019	$ (3,069)	$ 29,403	$ (2,106)
Accrued benefit assets at end of year	$ 36,244	$ –	$ 38,272	$ –
Accrued benefit liabilities at end of year	$ 10,225	$ 3,069	$ 8,869	$ 2,106
Weighted average assumptions				
Discount rate	6.75%	6.75%	7.00%	7.00%
Assumed long-term rate of return on plan assets	7.75%	–	7.75%	–
Rate of return used to determine plan expense	7.75%	–	8.00%	–
Rate of increase in future compensation	3.50%	3.50%	3.50%	3.50%

For valuation purposes of the other plans, the hypothetical average annual growth rate of healthcare costs covered for each participant was set at 10% for medical care and 3.5% for dental care. Based on the assumption adopted, the rate for medical care would be gradually reduced to 5% over a 10-year period.

As at October 31, 2002 and 2003, none of the defined benefit pension plans were fully funded.

	2003		2002	
	Pension plans	Other plans	Pension plans	Other plans
Transition obligation				
Transition obligation at beginning of year	$1,375	$14,297	$1,639	$15,118
Amortization	(264)	(821)	(264)	(821)
Transition obligation at end of year	$1,111	$13,476	$1,375	$14,297

Net plan expense components as at October 31:

	2003		2002	
	Pension plans	Other plans	Pension plans	Other plans
Service cost	$ 6,530	$ 127	$ 6,551	$ 119
Interest cost	16,502	1,055	15,293	1,043
Expected return on plan assets	(16,786)	–	(17,430)	–
Amortization of transition obligation	264	821	264	821
Amortization of cost of past service	652	–	454	–
Defined contribution provision	2,361	–	2,276	–
Amortization of actuarial loss (gain)	1,330	–	(12)	–
Other	1,635	–	401	–
Net plan expense	$ 12,488	$2,003	$ 7,797	$1,983

Sale of branches to TD Bank

Under the agreement regarding the sale of branches to TD Bank (see note 2), the pension plan of employees affected by the sale were not transferred. The participants are no longer accumulating new benefits, but the accumulated entitlements on the date of sale remain in the plans of the Bank until employment with TD Bank is terminated. At the time of the sale of the branches, the Bank revised its estimates related to the indexation of benefits for these employees, which generated an additional expense of $1,500,000, which was charged against the gain on disposal.

15. RESTRUCTURING COSTS

2003 program

Consolidated income for 2003 includes restructuring costs totalling $21,569,000 ($14,020,000 after taxes). This expense, which is associated with an expense reduction program, includes termination benefits, as well as the write-off of certain computer equipment and software and lease terminations. Certain information system development projects were written off subsequent to the decision to discontinue the project of transforming the Bank into a holding company and to the sale of branches in Ontario and Western Canada. The expenses incurred during the year include the write-off of certain computer equipment and software and lease terminations relating to the following business lines: $8,134,000 ($4,775,000 used as at October 31, 2003) are related to Retail Financial Services; $1,203,000 ($25,000 used as at October 31, 2003) are related to Commercial Financial Services; and $5,962,000 ($4,555,000 used as at October 31, 2003) are related to other segments. The expenses incurred during the year also include human resources expenses relating to the following business lines: $2,593,000 ($1,291,000 used as at October 31, 2003) are related to Retail Financial Services; $906,000 ($187,000 used as at October 31, 2003) are related to Commercial Financial Services; $364,000 ($354,000 used as at October 31, 2003) are related to Wealth Management and Brokerage; and $2,407,000 ($1,275,000 used as at October 31, 2003) are related to other segments. With regard to segmented information, all of these costs were charged to Other (see note 23).

	Costs incurred during the year	Amount used	Balance as at October 31, 2003
Write-off of computer equipment and software and lease terminations	$15,299	$ 9,355	$5,944
Human resources expenses	6,270	3,107	3,163
Total restructuring costs	$21,569	$12,462	$9,107

15. RESTRUCTURING COSTS (CONTINUED)

2001 program

The consolidated statement of income for 2001 included restructuring costs of $17,540,000 ($11,401,000 net of income taxes). These costs included the write-off of certain assets and lease terminations, severance payments and other costs. The reversal during 2003 was in respect of branches in Ontario and Western Canada, for which the Bank had expected to incur restructuring costs. As a result of the selling project initiated in early 2003, the costs were not incurred.

	Balance as at October 31, 2001	Amount used	Net reversal	Balance as at October 31, 2002	**Amount used**	**Reversal**	**Balance as at October 31, 2003**
Write-off of assets and lease terminations	$ 6,398	$4,284	$ 805	$1,309	**$146**	**$ 869**	**$294**
Human resources costs	3,282	3,004	(928)	1,206	**378**	**828**	**–**
Other costs	3,429	2,530	752	147	**–**	**147**	**–**
Total restructuring costs	$13,109	$9,818	$ 629	$2,662	**$524**	**$1,844**	**$294**

16. INCOME TAXES

Future income tax assets

Significant components of the Bank's future income tax assets and liabilities are as follows:

	2003	2002
Prospective tax loss deferrals	**$ 13,494**	$ 11,255
Capital assets	**53,266**	53,697
Allowance for loan losses	**27,724**	37,208
Recoverable minimum tax of financial institutions	**33,312**	31,850
Intangible assets	**5,489**	8,893
Deferred charges	**(18,214)**	(19,451)
Other temporary differences	**(5,341)**	(2,252)
Future income tax assets, net	**$109,730**	$121,200

Income tax expense

Significant components of the provision for income taxes are as follows:

	2003	2002
Consolidated statement of income		
Current income tax expense	**$23,168**	$21,575
Future income tax expense		
Tax rate changes	**–**	3,716
Creation and reversal of temporary differences	**15,491**	7,133
	15,491	10,849
	$38,659	$32,424
Consolidated statement of changes in shareholders' equity		
Income taxes on preferred dividends and other		
Current income tax expense	**$ 4,195**	$ 5,635
Future income tax benefit	**(4,021)**	(5,690)
	$ 174	$ (55)

Reconciliation with the statutory rate

The reconciliation of income tax expense to the dollar amount of income tax using the statutory rate is as follows:

	2003		2002	
	Amount	Percent	Amount	Percent
Income taxes at statutory rate	**$ 46,730**	**34.8%**	$30,901	37.6%
Change resulting from:				
Non-taxable portion of gain on disposal of assets	**(12,269)**	**(9.1)**	–	–
Tax on income from foreign operations	**(1,771)**	**(1.3)**	(1,285)	(1.6)
Large corporations tax	**2,703**	**2.0**	3,139	3.8
Tax rate changes	**–**	**–**	3,716	4.5
Tax benefits previously not recorded	**–**	**–**	(2,000)	(2.4)
Other, net	**3,266**	**2.4**	(2,047)	(2.4)
Income taxes reported in income and effective tax rate	**$ 38,659**	**28.8%**	$32,424	39.5%

Net income earned on credit insurance from foreign operations prior to November 1, 2003 will only be taxed upon repatriation to Canada. Since management of the Bank currently does not anticipate repatriating these retained earnings given it considers this capital necessary for ongoing operations, no future income tax expense was recorded in this regard.

17. NON-CONTROLLING INTEREST IN A SUBSIDIARY

On June 3, 2003, B2B Trust initiated a normal course issuer bid. The notice provides that B2B Trust intends to purchase up to 1,240,000 of its common shares representing approximately 5% of its 24,844,355 issued and outstanding common shares as at April 30, 2003. The Bank announced that it will not tender any common shares under the bid. Since the beginning of the redemption period, B2B Trust has redeemed 964,500 common shares for a consideration of $6,637,000 and as a result, the Bank has increased its participation in its subsidiary from 74.3% to 77.3%.

18. NET INCOME PER COMMON SHARE

Average number of common shares outstanding is as follows:

	2003	2002
Average number of common shares outstanding	**23,416**	23,095
Stock options	**41**	193
Average number of common shares outstanding after dilution	**23,457**	23,288

The Preferred Shares of Series 6, 7, 8 and 9 are convertible into common shares. These conversions were not taken into account in the calculation of diluted net income per common share because the Bank may settle such conversions in cash rather than common shares and, based on past experience, the Bank opts for a cash settlement.

An average of 404,220 (85,011 in 2002) share purchase options were not taken into account in the calculation of diluted net income per common share since the average exercise price of these options exceeded the average market value of the Bank's shares during the year.

19. RELATED PARTY TRANSACTIONS

The Bank provides loans to directors and officers. Loans to directors are granted under market conditions for similar risks. Loans to officers consist chiefly of residential mortgage loans at posted rates less 2%, as well as personal loans and personal lines of credit at market rates less a discount based on the type and amount of the loan. The interest earned on these loans is recorded under interest income in the consolidated statement of income. The outstanding balances of these loans are as follows:

	2003	2002
Mortgage loans	**$1,131**	$2,740
Other loans	**347**	1,561
	$1,478	$4,301

20. DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of business, the Bank enters into various contracts and commitments in order to protect itself against the risk of fluctuations in interest rates and foreign exchange rates and to meet its customers' demands as well as to earn trading income as described below.

The various derivative financial instruments listed in the tables below are defined as follows:

i) Interest rate swaps involve the exchange of fixed and floating interest payment obligations based on a predetermined notional amount for a specified period of time. Foreign exchange swaps involve the exchange of the principal and fixed or floating interest payments in different currencies. Cross-currency interest rate swaps involve the exchange of both the principal amount and fixed and floating interest payment obligations in two different currencies.

ii) Forward rate agreements are contracts fixing an interest rate to be paid or received, calculated on a notional principal amount with a specified maturity commencing at a specified future date.

iii) Options are agreements between two parties in which the writer of the option grants the buyer the future right, but not the obligation, to buy or to sell, at or by a specified date, a specific amount of a financial instrument at a price agreed upon when the option is arranged. The writer receives a premium for selling this instrument.

iv) Futures are future commitments to purchase or deliver a financial instrument on a specified future date at a specified price. Futures are traded in standardized amounts on organized exchanges and are subject to daily cash margining.

v) Foreign exchange forward contracts are commitments to purchase or sell foreign currencies for delivery at a specified date in the future at a fixed rate.

The Bank also conducts equity derivative transactions in order to hedge its index-linked deposits.

The following tables present the notional amounts associated with the derivative financial instruments. The amounts are not indicative of the potential gain or loss related to the credit or market risk of these instruments.

A) REMAINING TERM TO MATURITY

In millions of dollars						2003		2002
	Period to maturity							
Notional amount	Within 1 year	1 to 5 years	Over 5 years	Total	Trading	Other than trading	Trading	Other than trading
Interest rate contracts								
OTC contracts								
Swaps	$ 6,540	$8,144	$61	$14,745	$ –	$14,745	$ –	$ 9,504
Forward rate agreements	481	75	–	556	–	556	–	1,300
Options written	150	–	–	150	–	150	–	600
Exchange-traded contracts								
Futures	699	–	–	699	99	600	302	100
Options purchased	264	–	–	264	264	–	–	–
Foreign exchange contracts								
OTC contracts								
Foreign exchange swaps	805	101	–	906	906	–	1,664	–
Cross-currency interest rate swaps	–	50	–	50	–	50	–	100
Forwards	436	95	–	531	531	–	591	–
Options purchased	2,339	–	–	2,339	–	2,339	–	963
Options written	2,333	–	–	2,333	–	2,333	–	918
Exchange-traded contracts								
Futures	14	–	–	14	14	–	32	–
Other contracts (1)	51	145	–	196	–	196	–	193
	$14,112	$8,610	$61	$22,783	$1,814	$20,969	$2,589	$13,678

(1) Includes over-the-counter equity derivatives.

B) CREDIT EXPOSURE

In millions of dollars	2003			2002		
	Replacement cost (1)	Credit equivalent amount (2)	Risk-weighted amount (3)	Replacement cost	Credit equivalent amount	Risk-weighted amount
Interest rate contracts						
Swaps	$ 92	$134	$27	$108	$148	$30
Forward rate agreements	–	–	–	–	2	–
Foreign exchange contracts						
Foreign exchange swaps	35	46	11	8	14	3
Cross-currency interest rate swaps	–	2	–	3	6	1
Forwards	8	16	8	2	11	6
Options purchased	6	28	9	4	13	5
Other contracts (4)	18	32	6	8	23	5
	$159	$258	$61	$133	$217	$50

(1) Represents favorable fair market value, excluding the impact of master netting agreements. Exchange-traded instruments and options written are excluded since they do not constitute a credit risk.
(2) Represents total replacement cost, plus any corresponding potential credit risk amount, using guidelines issued by the Superintendent of Financial Institutions Canada.
(3) Using guidelines issued by the Superintendent of Financial Institutions Canada.
(4) Includes over-the-counter equity derivatives.

The majority of the credit concentration of the Bank with respect to derivative financial instruments is with financial institutions, primarily Canadian banks.

Credit risk from derivative transactions is generated by the potential for the counterparty to default on its contractual obligations when one or more transactions have a positive market value for the Bank. Replacement cost represents what it would cost to replace transactions at prevailing market rates if a default occurred.

The credit equivalent amount arising from a derivative transaction is defined as the sum of the replacement cost plus an add-on that is an estimate of the potential change in the market value of the transaction through to maturity.

The risk-weighted amount is determined by applying standard measures of counterparty risk to the credit equivalent amount.

21. FINANCIAL INSTRUMENTS

The amounts in tables A) and B) below present the fair value of on- and off-balance sheet financial instruments based on the valuation methods and assumptions as set out below.

Fair value represents the amount at which a financial instrument could be exchanged between willing parties. Quoted market prices are not available for a significant portion of the Bank's financial instruments. In such cases, the fair values presented are estimates derived using present value or other valuation techniques and may not be indicative of the net realizable value.

21. FINANCIAL INSTRUMENTS (CONTINUED)

A) FAIR VALUE OF ASSETS AND LIABILITIES

In millions of dollars	2003			2002		
	Book value	Fair value	Favorable (unfavorable) variance	Book value	Fair value	Favorable (unfavorable) variance
Assets						
Cash resources	$ 835	$ 835	$ –	$ 454	$ 454	$ –
Securities	$ 3,071	$ 3,058	$ (13)	$ 3,050	$ 3,038	$ (12)
Assets purchased under reverse repurchase agreements	$ 882	$ 882	$ –	$ 870	$ 870	$ –
Loans	$11,034	$11,198	$ 164	$13,122	$13,362	$ 240
Customers' liability under acceptances	$ 235	$ 235	$ –	$ 332	$ 332	$ –
Other assets	$ 216	$ 216	$ –	$ 192	$ 192	$ –
Liabilities						
Deposits	$13,293	$13,500	$(207)	$14,968	$15,207	$(239)
Obligations related to assets sold short	$ 970	$ 970	$ –	$ 861	$ 861	$ –
Obligations related to assets sold under repurchase agreements	$ 173	$ 173	$ –	$ 448	$ 448	$ –
Acceptances	$ 235	$ 235	$ –	$ 332	$ 332	$ –
Other liabilities	$ 732	$ 732	$ –	$ 706	$ 706	$ –
Subordinated debentures	$ 400	$ 421	$ (21)	$ 400	$ 427	$ (27)

The fair value of items which are short term in nature or contain variable rate features is considered to be equal to book value.

The fair value of securities is based on quoted market prices or, if not available, it is estimated using quoted market prices of similar investments.

The fair value of loans, deposits and subordinated debentures is estimated by discounting cash flows using market interest rates.

B) FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

In millions of dollars	2003			2002		
	Favorable fair value	Unfavorable fair value	Net amount	Favorable fair value	Unfavorable fair value	Net amount
TRADING ACCOUNT						
Foreign exchange contracts						
Foreign exchange swaps	$ 35	$ (15)	$ 20	$ 8	$ (7)	$ 1
Forwards	8	(31)	(23)	2	(5)	(3)
	43	(46)	(3)	10	(12)	(2)
NON-TRADING ACCOUNT						
Interest rate contracts						
Swaps	92	(106)	(14)	108	(145)	(37)
Forward rate agreements	–	(2)	(2)	–	(3)	(3)
Options written	–	–	–	–	(1)	(1)
	92	(108)	(16)	108	(149)	(41)
Foreign exchange contracts						
Cross-currency interest rate swaps	–	(5)	(5)	3	(8)	(5)
Options purchased	6	–	6	4	–	4
Options written	–	(6)	(6)	–	(3)	(3)
	6	(11)	(5)	7	(11)	(4)
Other contracts (1)	18	–	18	8	(1)	7
	116	(119)	(3)	123	(161)	(38)
TOTAL	$159	$(165)	$ (6)	$133	$(173)	$(40)

(1) Includes over-the-counter equity derivatives.

The fair value of off-balance sheet derivative financial instruments is based on quoted market prices or dealer quotes. Otherwise, fair value is estimated on the basis of pricing models, quoted prices of instruments with similar characteristics, or discounted cash flows.

C) INTEREST RATE RISK

The following table gives the detailed maturity dates and average effective rates of the on- and off-balance sheet instruments of the Bank.

In millions of dollars — 2003

	Floating	0 to 3 months	Over 3 months to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years	Non-interest sensitive	Total
Assets								
Cash resources and securities	$1,235	$ 1,118	$ 103	$ 778	$ 414	$159	$ 99	$ 3,906
Rate	2.5%	2.8%	3.0%	3.1%	3.6%	5.3%	–	2.9%
Assets purchased under reverse repurchase agreements	882	–	–	–	–	–	–	882
Rate	2.8%	–	–	–	–	–	–	2.8%
Loans	3,494	727	1,575	2,508	2,510	189	31	11,034
Rate	6.5%	6.1%	6.2%	6.6%	6.6%	6.9%	–	6.4%
Other assets	241	178	–	–	–	–	497	916
Rate	–	–	–	–	–	–	–	–
Total	5,852	2,023	1,678	3,286	2,924	348	627	16,738
Rate	4.8%	3.7%	6.0%	5.7%	6.2%	6.2%	–	5.0%
Liabilities and equity								
Demand and notice deposits	496	74	222	624	624	–	399	2,439
Rate	2.8%	0.4%	0.4%	0.5%	0.5%	–	–	0.9%
Term deposits	–	2,106	3,638	3,356	1,752	2	–	10,854
Rate	–	2.6%	3.5%	4.9%	4.4%	3.1%	–	3.9%
Other liabilities	346	948	406	305	50	25	50	2,130
Rate	0.9%	0.1%	1.8%	3.9%	4.5%	6.6%	–	1.3%
Debentures, non-controlling interest and equity	–	38	163	300	100	–	714	1,315
Rate	–	7.7%	6.5%	7.1%	6.0%	–	–	3.1%
Total	842	3,166	4,429	4,585	2,526	27	1,163	16,738
Rate	2.0%	1.9%	3.3%	4.4%	3.5%	6.2%	–	3.1%
Swaps, net	–	(3,240)	1,962	1,085	223	(30)	–	–
Other derivative financial instruments	–	69	(14)	(24)	(31)	–	–	–
Sensitivity gap	$5,010	$(4,314)	$ (803)	$ (238)	$ 590	$291	$(536)	$ –
Cumulative gap	$5,010	$ 696	$ (107)	$ (345)	$ 245	$536	$ –	$ –

2002

	Floating	0 to 3 months	Over 3 months to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years	Non-interest sensitive	Total
Assets	$6,001	$ 2,260	$ 2,367	$4,108	$2,744	$352	$ 764	$18,596
Rate	4.4%	3.8%	5.9%	6.1%	7.0%	6.6%	–	5.1%
Liabilities and equity	816	3,712	3,788	5,557	3,375	32	1,316	18,596
Rate	1.2%	2.5%	3.3%	4.2%	4.0%	6.6%	–	3.2%
Swaps, net	–	(1,415)	357	597	436	25	–	–
Other derivative financial instruments	–	86	(34)	(52)	–	–	–	–
Sensivity gap	$5,185	$(2,781)	$(1,098)	$ (904)	$ (195)	$345	$(552)	$ –
Cumulative gap	$5,185	$ 2,404	$ 1,306	$ 402	$ 207	$552	$ –	$ –

21. FINANCIAL INSTRUMENTS (CONTINUED)

Assets, liabilities and equity are shown at the earlier of the date of maturity or contractual re-evaluation while taking into consideration reimbursements or estimated prepayments, except for the following:

- Loans and deposits for which the interest rates are not indexed on a specific rate and which can be non-sensitive to changes in market rates are classified based on the historical evolution of their sensitivity.
- Debentures for which interest rates can be revised at a future date are classified at the re-evaluation date; those for which rates cannot be revised are classified at their maturity.
- Preferred shares are classified using the date on which they become redeemable.

D) CONCENTRATION OF CREDIT RISK

Concentration of credit risk exists where a number of borrowers or counterparties engaged in similar activities are located in the same geographic area or have comparable economic characteristics. Their ability to meet contractual obligations may be similarly affected by changing economic, political or other conditions. The Bank's operations are located in Canada.

The following table shows loans based on location as at October 31:

	2003	2002
Quebec	**64%**	53%
Other Canadian provinces	**36%**	47%
Total	**100%**	100%

No single industry segment accounted for more than 3% (3% in 2002) of the total loans and customers' liability under acceptances.

22. COMMITMENTS, CONTINGENCIES AND GUARANTEES

A) CREDIT-RELATED COMMITMENTS

The Bank uses certain off-balance sheet credit instruments as a means of meeting the financial needs of its customers.

Unutilized credit balances represent a commitment to make credit available in the form of loans or other credit instruments for specific amounts and maturities, subject to specific conditions.

Documentary letters of credit are documents issued by the Bank on behalf of customers, authorizing a third party to draw drafts to a stipulated amount under specific conditions. These letters are guaranteed by the underlying shipments of goods.

The amounts of credit-related commitments represent the maximum amount of additional credit that the Bank could be obliged to extend. These amounts are not necessarily indicative of credit risk as many of these arrangements are contracted for a limited period of usually less than one year and will expire or terminate without being drawn upon.

	2003	2002
Unutilized credit balances	**$2,485,170**	$2,227,547
Documentary letters of credit	**$ 13,470**	$ 19,958

B) GUARANTEES

i) Standby letters of credit and performance guarantees

In the normal course of its operations, the Bank offers to its customers the possibility of obtaining standby letters of credit and performance guarantees. These represent irrevocable assurances that the Bank will make payments in the event that the client cannot meet its obligations to third parties. The terms of these guarantees vary according to the contracts and normally do not exceed one year. The Bank's policy for requiring collateral security with respect to these instruments is similar to its policy for loans. No specific provision is currently recorded with regard to these guarantees. The maximum potential amount of future payments under these guarantees totalled $65,445,000 as at October 31, 2003.

ii) Derivative financial instruments

To meet certain customers' hedging needs against foreign exchange rate fluctuations, the Bank uses written options (foreign exchange contracts), which are contractual agreements under which the Bank grants customers the right, but not the obligation to sell, by or on a set date, a specified amount of a financial instrument at a predetermined price. The term of these options does not exceed 12 months. No specific provision is accounted for with regard to these guarantees. The maximum potential amount of future payments under these guarantees, corresponding to the notional value of outstanding contracts, totalled $862,945,000 as at October 31, 2003.

iii) Director/officer indemnification agreements

The Bank's by-laws include an agreement to indemnify its directors and officers, former directors and officers and individuals who have acted at the Bank's request as a director or officer or liquidator of an entity in which the Bank is a shareholder or creditor. This agreement aims at compensating them, to the extent permitted by law, against any and all charges, costs, expenses, or amounts paid by way of settlement of a claim or damages incurred by the directors and officers as a result of any lawsuit, or any judicial, administrative or investigative proceeding in which the directors and officers could be sued as a result of their service. These indemnification claims will be subject to any statutory or other legal limitation period. The nature of these indemnification agreements prevents the Bank from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties, and no specific provision has been accounted for in this regard. The Bank has purchased directors' and officers' liability insurance.

iv) Other indemnification agreements

In the normal course of its operations, the Bank provides indemnification agreements to counterparties in certain transactions such as purchase contracts, service agreements and sales of assets. These indemnification agreements require the Bank to compensate the counterparties for costs incurred as a result of changes in laws and regulations (including tax legislation) or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnification agreements vary based on the contract. The nature of the indemnification agreements prevents the Bank from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. Historically, the Bank has not made any significant payments under such indemnifications. No amount has been accrued with respect to these indemnification agreements.

C) LEASE COMMITMENTS, SERVICE CONTRACTS FOR INFORMATION TECHNOLOGY SERVICES AND OTHER CONTRACTS

Minimum future commitments under leases, service contracts for outsourced technology services and other contracts are as follows:

	Premises	Information technology service contracts	Other
2004	$20,816	$ 19,801	$2,718
2005	18,069	20,188	917
2006	15,073	13,543	917
2007	13,492	14,353	917
2008	9,435	15,326	611
Thereafter	15,616	52,439	–
Total	$92,501	$135,650	$6,080

As stipulated under major service contracts, the Bank may terminate the agreement in certain circumstances.

22. COMMITMENTS, CONTINGENCIES AND GUARANTEES (CONTINUED)

D) LITIGATION

The Bank and its subsidiaries are involved in various pending legal actions which arise in the normal course of business. Many of these proceedings are related to loans granted by the Bank and are in reaction to steps taken by the Bank to collect delinquent loans and enforce the underlying securities. Certain claims for damages have also been brought against the Bank, particularly with respect to the role of one of its subsidiaries as bare trustee with regard to operations related to portfolios administration, as well as to applications for authorization to institute class actions in connection with certain bank fees. Management considers that adequate provisions have been set aside to cover any future losses and any amounts that might not be recoverable from insurance companies, as the case may be, in connection with these actions.

E) PLEDGED ASSETS

Assets with a book value of $260,911,000 ($333,465,000 in 2002) have been pledged as collateral in order to participate in clearing and payment systems. In addition, securities amounting to $173,246,000 ($447,862,000 in 2002) have been sold under repurchase agreements containing collateral recorded as loans.

23. SEGMENTED INFORMATION

As a result of the reorganization of its activities in 2002, the Bank offers its services through four business lines: Retail Financial Services, Commercial Financial Services, B2B Trust and Wealth Management and Brokerage.

The Retail Financial Services segment covers the full range of savings, investment, financing and transactional products and services offered through its direct distribution network, which includes branches, the electronic network and the call centres, as well as Point-of-Sale financing, agent deposits and broker mortgages across Canada. This business line also offers Visa credit card services and insurance products, as well as trust services.

The Commercial Financial Services segment handles commercial loans and larger financings as part of banking syndicates, as well as commercial mortgage financing, leasing, factoring and other services.

The B2B Trust segment supplies generic and complementary banking and financial products to independent financial advisors and non-bank financial institutions across Canada.

Wealth Management and Brokerage consists of the activities of the subsidiary Laurentian Bank Securities Inc. and the Bank's share of the joint venture BLC-Edmond de Rothschild Asset Management Inc.

The category "Other" includes treasury and securitization activities and other activities of the Bank including revenues and expenses that are not attributable to the above-mentioned segments.

Results for the Bank's segments are based on internal financial reporting systems and are consistent with the accounting principles followed in the preparation of the Bank's consolidated financial statements. Transfer pricing regarding the funding of segments' assets and liabilities is based on institutional funding costs which best reflect the nature and maturities of these items. Non-interest expenses are matched against the revenues to which they relate. Indirect costs are allocated to the segments based on appropriate criteria.

The financial results of Agency Banking, previously included with the B2B Trust segment, are now grouped with those of Retail Financial Services. Comparative figures for 2002 were reclassified to conform to the presentation in 2003.

						2003
	Retail Financial Services	Commercial Financial Services	B2B Trust	Wealth Management and Brokerage [2]	Other [3]	Total
Net interest income	$ 274,167	$ 62,797	$ 46,815	$ 1,256	$ (41,809)	$ 343,226
Other income	95,227	29,766	15,715	29,715	116,297	286,720
Total revenue	369,394	92,563	62,530	30,971	74,488	629,946
Provision for credit losses	28,834	27,516	1,650	–	(4,000)	54,000
Non-interest expenses	312,903	34,750	37,627	19,373	37,127	441,780
Income before income taxes and non-controlling interest in net income of a subsidiary	27,657	30,297	23,253	11,598	41,361	134,166
Income taxes	10,853	11,958	8,631	2,865	4,352	38,659
Non-controlling interest in net income of a subsidiary	–	–	3,640	–	–	3,640
Net income	$ 16,804	$ 18,339	$ 10,982	$ 8,733	$ 37,009	$ 91,867
Average assets [1]	$10,986,717	$2,693,434	$2,637,578	$1,367,399	$ 862,893	$18,548,021
Average loans [1]	$10,762,710	$2,154,194	$2,094,479	$ 9	$(2,196,895)	$12,814,497
Average deposits [1]	$10,975,978	$ 36,999	$2,359,322	$ 257	$ 1,845,962	$15,218,518
Efficiency ratio [4]	84.7%	37.5%	60.2%	62.6%	n/a	70.1%

						2002
	Retail Financial Services	Commercial Financial Services	B2B Trust	Wealth Management and Brokerage	Other	Total
Net interest income	$ 295,013	$ 67,424	$ 54,943	$ 194	$ (71,598)	$ 345,976
Other income	100,349	41,496	16,850	23,064	72,684	254,443
Total revenue	395,362	108,920	71,793	23,258	1,086	600,419
Provision for credit losses	27,549	82,701	750	–	–	111,000
Non-interest expenses	298,830	37,252	36,903	21,682	12,666	407,333
Income (loss) before income taxes and non-controlling interest in net income of a subsidiary	68,983	(11,033)	34,140	1,576	(11,580)	82,086
Income taxes (recovery)	27,341	(4,462)	13,476	687	(4,618)	32,424
Non-controlling interest in net income of a subsidiary	–	–	5,318	–	–	5,318
Net income (loss)	$ 41,642	$ (6,571)	$ 15,346	$ 889	$ (6,962)	$ 44,344
Average assets [1]	$11,434,358	$2,999,455	$2,540,482	$1,313,442	$ 282,496	$18,570,233
Average loans [1]	$11,208,360	$2,490,370	$2,154,112	$ 11	$(2,728,594)	$13,124,259
Average deposits [1]	$10,635,542	$ 43,347	$2,260,088	$ 285	$ 2,027,933	$14,967,195
Efficiency ratio [4]	75.6%	34.2%	51.4%	93.2%	n/a	67.8%

(1) Assets and liabilities are disclosed on an average basis as this measure is most relevant to a financial institution.
(2) Includes the pre-tax gain of $8.5 million ($6.7 million net of taxes) on the sale of shares of TSX Group Inc.
(3) Includes the gain on sale of branches of $69.9 million ($54.9 million net of taxes) and restructuring costs of $19.7 million ($12.8 million net of taxes).
(4) Corresponds to non-interest expenses as a percentage of total revenue.

Executive officers

Members of the Management Committee

Raymond McManus
President and
Chief Executive Officer
Chairman of the Board,
B2B Trust

Robert Cardinal
Senior Executive Vice-President
Finance, Administration
and Strategic Development
and Chief Financial Officer

André Dubuc
Senior Executive Vice-President
and Treasurer, Treasury,
Capital Markets, Wealth
Management and Brokerage

Bernard Piché
President and Chief Executive
Officer, B2B Trust
Executive Vice-President

Lorraine Pilon
Executive Vice-President,
Corporate Affairs and Secretary
Secretary, B2B Trust

Réjean Robitaille
Executive Vice-President,
Retail Financial Services

André Scott
Executive Vice-President,
Commercial Financial Services

Members of the Planning Committee

Marcel Beaulieu
Vice-President,
Product Management

Chantal Bélanger
Ombudsman, Laurentian Bank
and subsidiaries

Luc Bernard
Senior Vice-President,
Marketing

André Bolduc (guest)
Chief Operating Officer
and Chief Financial Officer,
BLC-Edmond de Rothschild
Asset Management Inc.

Louise Bourassa
Senior Vice-President,
Administrative Services

Denise Brisebois
Vice-President,
Human Resources

Jacques Daoust (guest)
President and
Chief Executive Officer,
BLC-Edmond de Rothschild
Asset Management Inc.

François Desjardins
Vice-President,
Direct Financial Services

Jean-François Doyon
Vice-President,
Internal Audit

Philippe Duby
Vice-President,
Real Estate Management
and Chief Information Officer

Richard Fabre
Vice-President,
Retail Financial Services and
Private Banking, North Shore,
Downtown Montréal and
Western Quebec

France Gagné
Vice-President,
Compensation and Benefits

Mario Galella
Vice-President,
Retail Financial Services
North and West Montréal

Michel Gendron
Vice-President, Corporate
Banking, Québec Region

Luc Gingras
Vice-President,
Retail Financial Services,
Indirect Sales Network

Michael Greer (guest)
Senior Vice-President,
National Sales,
BLC-Edmond de Rothschild
Asset Management Inc.

Ronald Hodges (guest)
Vice-President,
Product Management and
Client Services, B2B Trust

Paul Hurtubise
Senior Vice-President,
Real Estate Financing

Michel Lafontaine
Vice-President,
Capital Markets

Rick C. Lane
Vice-President, Real Estate
Financing, Ontario

André Lopresti
Vice-President
and Chief Accountant

Jacques Lussier
Vice-President,
Retail Financial Services
Quebec, Eastern Quebec
and Mauricie

Yves Magnan
Senior Vice-President,
Taxation

Louis Marquis
Senior Vice-President,
Credit

Alan McCandless
Vice-President,
Commercial Banking

Pierre Minville
Vice-President,
Mergers and Acquisitions

Marlène Otis
Vice-President,
Commercial Financing

Marc Paradis
Senior Vice-President,
Strategic Planning and Control

Nathalie Roberge
Vice-President,
Public Affairs and
Communications

Yves Ruest (guest)
Vice-President,
Finance & Administration
and Chief Financial Officer,
Laurentian Bank Securities Inc.

Claude Sasseville
Vice-President,
Retail Financial Services,
East Montréal and South Shore

Marie-Josée Sigouin
Senior Vice-President,
Human Resources

Al Spadaro (guest)
Vice-President, Business
Development, B2B Trust

Michel C. Trudeau (guest)
President and Chief
Executive Officer, Laurentian
Bank Securities Inc.

Alicia Zemanek
Vice-President, Investor
Relations and Integrated
Risk Management

Offices

Agricultural Financing

Drummondville
1240, boul. Saint-Joseph

Granby
40, rue Évangéline

Lachute
470, rue Principale

Saint-Hyacinthe
5915, rue Martineau

Saint-Jean-sur-Richelieu
605, boul. Pierre-Caisse

Sainte-Marie
16, rue Notre-Dame

Victoriaville
403, boul. Jutras Est

B2B Trust

Toronto – Head office
130 Adelaide Street West
2nd Floor

BLC-Edmond de Rothschild Asset Management Inc.

Montréal
1981, avenue McGill College
Mezzanine 255

Québec (Sainte-Foy)
2600, boul. Laurier
Bureau 2200

Toronto
130 Adelaide Street West
Suite 300

Brome Financial Corporation Inc.

Montréal
500, rue Sherbrooke Ouest
Bureau 400

Builders Mortgage Centre – Residential

Montréal
1981, avenue McGill College
Bureau 1400

Commercial Financing

Chicoutimi
1611, boul. Talbot
Bureau 100

Drummondville
1240, boul. Saint-Joseph

Hull
770, boul. Saint-Joseph

Kitchener
10 Duke Street West

Markham
11 Allstate Parkway
Suite 430

Mississauga
989 Derry Road East
Suite 303

Montréal
255, boul. Crémazie Est
Bureau 1100

Québec (Sainte-Foy)
2700, boul. Laurier
Bureau 2287

Sherbrooke
2637, rue King Ouest

Corporate Banking

Montréal
1981, avenue McGill College
Bureau 1980

International Services

Montréal
1981, avenue McGill College
Bureau 1750

Toronto
130 Adelaide Street West

Laurentian Bank Securities Inc.

Drummondville
645, boul. Saint-Joseph
Bureau 100

Granby
20, Place du Lac

Laval
2525, boul. Daniel-Johnson
Bureau 500

Longueuil
370, chemin Chambly

Montréal
1981, avenue McGill College
Bureau 100

Québec (Sainte-Foy)
2600, boul. Laurier
Bureau 2280

Saint-Jean-sur-Richelieu
100, rue Richelieu
Bureau 150

Toronto
130 Adelaide Street West

Laurentian Trust of Canada Inc.

Montréal
425, boul. de Maisonneuve
Ouest

LBC Capital II Inc.

Montréal
1981, avenue McGill College
20e étage

LBC Financial Services Inc.

Montréal
425, boul. de Maisonneuve
Ouest
Bureau 105

LBC Trust

Montréal
1981, avenue McGill College
20e étage

Micro-business

Alma
500, rue Sacré-Coeur Ouest

Montréal
425, boul. de Maisonneuve
Ouest
Bureau 105

Québec (Sainte-Foy)
2600, boul. Laurier
Bureau 25

Mortgage Broker Centre

Montréal
1981, avenue McGill College
Bureau 1400

Toronto
130 Adelaide Street West
Suite 200

Point-of-sale Financing

Montréal
1981, avenue McGill College
Bureau 1400

Private Banking

Montréal
1981, avenue McGill College
Mezzanine 255

Real Estate Financing

Calgary
301 6th Avenue S. West

Kitchener
10 Duke Street West
Suite 100

Montréal
1401, avenue McGill College
2e étage

Ottawa
255 Albert Street

Toronto
130 Adelaide Street West
2nd Floor

Vancouver
800 West Pender Street
Suite 300

Subsidiaries and affiliated companies

As at October 31, 2003

In thousands of dollars, unless otherwise indicated.

Name	Principal office address	Carrying value of voting shares owned by the Bank [1]	Percentage of voting shares owned by the Bank
B2B Trust [2]	Toronto, Canada	$142,310	77.3%
Laurentian Trust of Canada Inc.	Montréal, Canada	$119,712	100%
LBC Trust	Toronto, Canada	$ 48,032	100%
Laurentian Bank Securities Inc.	Montréal, Canada	$ 19,330	100%
LBC Financial Services Inc.	Montréal, Canada	$ 1,693	100%
LBC Capital II Inc.	Montréal, Canada	$ 8,870	100%
BLC-Edmond de Rothschild Asset Management Inc. [3]	Montréal, Canada	$ 14,569	50.1%
Brome Financial Corporation Inc.	Montréal, Canada	$ 7,310	51%

(1) The carrying value of voting shares is stated at the Bank's net equity in these investments.
(2) B2B Trust has been a public company since June 27, 2001.
(3) BLC-Edmond de Rothschild Asset Management Inc. is a joint venture.

Shareholder information

Head office
Tour Banque Laurentienne
1981, avenue McGill College
Montréal (Québec) H3A 3K3
Telephone: (514) 284-4500
ext. 5996
Fax: (514) 284-3396
Telebanking Centre, Automated Banking and customer service:
(514) LBC-1846
(Montréal region)
Toll free:
1-800-LBC-1846
Internet address:
www.laurentianbank.com
Telex: 145069
Swift Code: BLCM CA MM

Annual meeting
The Annual Meeting of the Shareholders of the Bank will be held Wednesday, March 17, 2004, at 9:00 a.m., at the Mont-Royal Centre, 2200, rue Mansfield, Montréal (Québec) H3A 3R8.

Valuation day price
For capital gains purposes, the market value of Laurentian Bank common shares on Valuation day, December 22, 1971, adjusted for the stock splits of July 1983 and January 1987, was $3.72.

Transfer Agent and Registrar
Computershare Trust
Company of Canada
1500, rue University
Bureau 700
Montréal (Québec) H3A 3S8

Ombudsman's office
Laurentian Bank of Canada
Tour Banque Laurentienne
1981, avenue McGill College
14e étage
Montréal (Québec) H3A 3K3
(514) 284-7192
1-800-473-4782

Change of address and inquiries
Shareholders should notify the Transfer Agent of a change of address. Inquiries or requests may be directed to the Secretary's Office at Head Office or by calling (514) 284-4500 ext. 7545.

Investors and analysts
Investors and analysts may contact the Investors Relations Department at Head Office by calling (514) 284-4500 ext. 5916.

Media
Journalists may contact the Public Affairs and Communications Department at Head Office by calling (514) 284-4500 ext. 7511.

Direct deposit service
Shareholders of the Bank may, by advising the Transfer Agent in writing, have their dividends deposited directly into an account held at any financial institution member of the Canadian Payments Association.

This Annual Report was produced by the Public Affairs and Communications Department of Laurentian Bank.

Vous pouvez recevoir un exemplaire français de ce rapport annuel en faisant parvenir votre demande par écrit à :
Banque Laurentienne
Tour Banque Laurentienne
1981, avenue McGill College,
20e étage, bureau 2085
Montréal (Québec) H3A 3K3

Stock symbol and dividend payment

The common and preferred shares indicated below are listed on the Toronto Stock Exchange.	Stock Symbol Code CUSIP	Dividend Record Date*	Dividend Payment Date*
Common shares	51925D 10 6 LB	First business day of:	First business day of:
		January	February
		April	May
		July	August
		October	November
Preferred shares			
Series 7	51925D 70 0 LB.PR.B	**	March 15
Series 8	51925D 80 9 LB.PR.C	**	June 15
Series 9	51925D 87 4 LB.PR.D	***	September 15
			December 15

* Subject to the approval of the Board of Directors.
** On such day (which shall not be more than 50 days preceding the date fixed for payment of such dividend) as may be determined from time to time by the Board of Directors of the Bank.
*** On such day (which shall not be more than 30 days preceding the date fixed for payment of such dividend) as may be determined from time to time by the Board of Directors of the Bank.

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LAURENTIAN BANK
OF CANADA

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